

COMPAK

ACCOUNTING UNITS 3 AND 4

VCE Accounting Units 3 and 4 practice exam 2024 and suggested solutions

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The following VCE Accounting Units 3 and 4 practice exam consists of eight questions worth 100 marks. Students are required to answer all questions in the spaces provided in the answer book.

The command/task words in each question, the corresponding number of marks allocated, and the number of lines provided after each question, where appropriate, guide the appropriate length of responses. Suggested answers to this practice exam follow the answer book.

Please note that the following questions and solutions have no official status. Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

ACCOUNTING UNITS 3 AND 4

Practice written examination 2024

Reading time: 15 minutes

Writing time: 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 white-out liquid/tape.

Materials supplied

- Question book
- Answer book

Instructions

- Write your name and your teacher's name in the spaces provided on the front page of the answer book.
- Answer **all** questions in the answer book.
- All written responses must be in English.

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

Question 1 (12 marks)

Betty Summer owns a craft store, Lavender Crafts, specialising in DIY accessory kits. Lavender Crafts uses the first in first out (FIFO) inventory cost assignment method. All items are marked up by 100%. Lavender Crafts receives all inventory from one supplier, TSwizzle Inc. All sales were made on credit during October.

| Inventory item: Threading Machines | | | | | Cost method: FIFO | | | | | |
|------------------------------------|----------|-----|------|-------|-------------------|------|-------|---------|------|-------|
| Supplier: Bead Era Pty Ltd | | | | | | | | | | |
| Date 2024 | Document | IN | | | OUT | | | BALANCE | | |
| | | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total |
| 1 Oct | Balance | | | | | | | 1 | 30 | 30 |
| | | | | | | | | 3 | 50 | 150 |
| 5 Oct | CN 35 | | | | 1 | 30 | 30 | 3 | 50 | 150 |
| 13 Oct | Inv. 123 | 20 | 60 | 1 200 | | | | 3 | 50 | 150 |
| | | | | | | | | 20 | 60 | 1 200 |
| 15 Oct | Inv. 650 | | | | 3 | 50 | 150 | | | |
| | | | | | 3 | 60 | 180 | 17 | 60 | 1 020 |
| 26 Oct | CN 46 | 1 | 60 | 60 | | | | 18 | 60 | 1 080 |

- a. Prepare the General Journal entries for the transactions on 5 October and 26 October. Narrations are **not** required.
5 marks
- b. Calculate the Cost of Sales for October.
1 mark

On 28 October, a physical count showed that there were 12 threading machines on hand (Memo 4). Additionally, due to slow sales, Betty Summer has decided to discontinue this inventory. She will discount the selling price of the Threading Machines to \$65 per unit along with a thread kit (Memo 5). The thread kit costs \$7 per unit (GST not included).

- c. Complete the Inventory Card with the above information
4 marks
- d. Describe two ways that an Inventory Card can assist in the management of inventory.
2 marks

Question 2 (18 marks)

WinterWarmer is a growing business that specialises in electric fireplaces and biofuel fires on the Mornington Peninsula. The owner, Sally Greensmoke, has decided to establish a double entry system from 1 January 2024. She organised a \$5 000 bank overdraft limit with ZNA Bank and transferred an existing loan of \$100 000 on 1 January 2023 (Memo 3) to the business. The loan repayments are at 6% p.a.

The following is a list of the business's assets and liabilities as at 1 January 2024.

| Account | \$ |
|---|-----------|
| Accounts Payable | 86 500 |
| Accounts Receivable | 67 100 |
| Accumulated Depreciation – Biofuel Treatment Unit | 9 650 |
| Accrued Wages | 6 000 |
| Biofuel Treatment Unit | 25 000 |
| Bank | (3 000) |
| GST Clearing | (15 000) |
| Inventory | 159 000 |
| Loan – ZNA Bank | 100 000 |
| Prepaid Rent | 5 600 |
| Vehicle | 38 000 |

- a. Prepare the General Journal entry to establish the double entry system at 1 January 2024 (Memo 4). A narration **is** required. **6 marks**

- b. Explain with an example, the reason for using a double-entry accounting system. **3 marks**

- c. Prepare the Current Liability section of the Balance Sheet as at 1 January 2024. **3 marks**

- d. With reference to the definition of the appropriate accounting element, explain your treatment of WinterWarmer's bank overdraft. **3 marks**

- e. On 31 January, the owner was advised that she had incorrectly recorded the value of the vehicle she had contributed to the business. She recorded it at its original purchase price instead of its fair value of \$28 000. Prepare the General Journal entry to correct this error (Memo 5). A narration **is** required. **3 marks**

Question 3 (10 marks)

The accountant provided the following extract from the Adjusted Trial Balance of Cronut Capers Cakehouse for the year ended 30 June 2024.

Adjusted Trial Balance (extract) as at 30 June 2024

| Account | Debit \$ | Credit \$ |
|-------------------------|-------------|--------------|
| Advertising | 14 000 | |
| Bank | | 9 000 |
| Bad Debts | 7 500 | |
| Cost of Sales | 320 000 | |
| Depreciation – Fittings | 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 | |
| Drawings | | 15 000 |

- a. Prepare the General Ledger to:
- show the closing of the revenue and expense accounts.
 - transfer the accounts required to complete the Capital account.
- Narrations are **not** required.
- b. With reference to the Period accounting assumption, explain why revenue and expense accounts need to be closed at the end of each reporting period.

7 marks

3 marks

Question 4 (10 marks)

Retro Review is a vintage designer goods reseller located in the Melbourne CBD. The business reports monthly and has provided the following information.

Information for the month ended 31 December 2024

| | |
|--------------------------|-----------|
| Sales | \$120 000 |
| Wages | \$10 000 |
| Rent | \$12 000 |
| Electricity | \$3 000 |
| Drawings (cash) | \$6 000 |
| Depreciation (furniture) | \$1 500 |
| Inventory Loss | \$4 000 |
| Bad Debts Expense | \$10 000 |

Additional information

- All purchases of inventory are from the same supplier with terms 10/7, n/30. Retro Review always takes advantage of the discount terms.
- 50% of Sales are on credit.
- Cash receipts from Accounts Receivable are \$20 000.
- Mark up on Sales is 200%.
- Accounts Payable at the start and end of the period were \$10 000.
- All expenses are paid in cash.
- Sales Returns are \$6 000 (plus GST) and are immediately returned to the supplier.
- A payment of \$14 800 was made to the Australian Taxation Office (ATO) in December 2024 as a GST settlement.

a. Calculate the following:

GST paid on cash payments

Payments to Accounts Payable. **2 marks**

b. Prepare the operating activities section of the Cash Flow Statement for the period ended 31 December 2024.

5 marks

c. Explain why Retro Review's Net Cash Flow from Operations could be higher than their Net Profit for the same period.

3 marks

Question 5 (12 marks)

Dallas Taylor owns and operates Discount Dallas, a small business selling white goods. The business comprises three store locations and reports quarterly. An extract of the business's Balance Sheet as at 30 June 2024 is shown below:

Discount Dallas
Balance Sheet (extract) as at 30 June 2024

| | | |
|---------------------------|----------|--------|
| ASSETS | | |
| Non-Current Assets | | |
| Delivery Vans | 95 000 | |
| Accumulated Depreciation | (75 000) | 20 000 |

a. Referring to the information above, describe what is meant by carrying value.

2 marks

On 30 September 2024, Dallas decided to replace the oldest Delivery Van. On 30 June 2024 the Delivery Van had a carrying value of \$5 000 and a cost of \$50 000. The Delivery Van was sold for \$2 000 cash plus GST. Delivery Vans are depreciated at a rate of 12% pa on cost.

b. Show how the disposal of the Delivery Van would appear in the General Ledger.

4 marks

On 1 December 2024 Dallas contributed his own Vehicle to the business. The Vehicle was purchased for \$42 000 but has a fair value of \$20 000 (Memo 8).

Dallas also paid \$2 000 plus GST to have the business name painted on the Vehicle (Chq. 973)

c. Explain what is meant by fair value.

2 marks

d. Show the General Journal entries necessary to record Memo 8 and Chq. 973. Narrations are not required.

4 marks

Question 6 (8 marks)

On 3 May 2024 Ashley Graham, the owner of Graham Consulting, arranged a contract with Shine Marketing for a series of six advertisements to be designed and published in trade magazines over the six months commencing 1 June 2024. Each advertisement will cost \$600 plus GST with the amount to be paid after the final advertisement has been published.

- a. Show the General Journal entries required for the transactions on the dates below. A narration is **not** required.
- 30 June 2024
 - 30 November 2024

2 + 3 = 5 marks

- b. Explain, with reference to an accounting assumption, why the business made the adjusting entry on 30 June 2024.

3 marks

Question 7 (18 marks)

Grant Pearce is about to open a toy shop, Pearce’s Toys, in Melbourne’s west. He will be using the perpetual system of recording inventory and the double entry system of recording financial data. To assist in planning, his accountant has asked him to provide a budget for the first six months of operations.

Grant has provided you with the following budgeted information for the first 6 months of operation.

- During the first accounting period Grant hopes to generate total sales of \$130 000 plus GST, with cash sales making up 60% of all sales.
- He has estimated the Accounts Receivable balance at the end of the first 6 months will be approximately \$8 500 and discount expense to be \$600.
- Most purchases of Inventory will be made on credit with only 10% being cash.
- Grant estimates Cost of Sales will be 50% of total sales with Inventory on hand at end being \$23 000.
- At the end of the six months, he estimates Accounts Payable will be owed \$15 600.
- He is anticipating an Inventory loss of \$2 000.

a. Using the information above, reconstruct the Accounts Receivable Account to calculate the budgeted cash received from Accounts Receivable for the six months ended 30 June 2024.

4 marks

b. Using the information above, reconstruct the Accounts Payable and Inventory accounts to calculate budgeted payments to Accounts Payable for the six months ended 30 June 2024.

6 marks

Upon reviewing the provided information, the accountant expresses concern that Grant may not have accounted for all potential scenarios related to his Accounts Receivable.

c. With reference to one accounting assumption, identify and explain why the accountant is concerned.

3 marks

On 30 June 2024 Grant’s accountant prepared a variance report to determine the success of the budgeting process. An extract is shown below:

d. Complete the extract in the Answer Book.

3 marks

Pearce’s Toys
Cash Variance Report for the six months ended 30 June 2024

| | Budgeted | Actual | Variance | Fav/Unfav |
|-----------------------------|----------|--------|----------|-----------|
| Operating Activities | | | | |
| Cash Sales | 78 000 | 83 000 | | |
| Investing Activities | | | | |
| Cash Purchase of Shelving | | 22 500 | 1 500 | U |
| Financing Activities | | | | |
| Capital | 60 000 | | 10 000 | U |

e. Explain one reason for the variance in Capital.

2 marks

Question 8 (12 marks)

Blyth Bedrooms has recently purchased a new Delivery Van in January 2024. The Delivery Van had a cost price of \$60 000 and an expected life of 5 years after which the asset will be disposed of for \$10 000.

The owner is considering charging depreciation at either:

- 20% per annum using the straight-line method.
- 35% per annum using the reducing balance method.

- a. Explain the most appropriate method of depreciation for the Delivery Van. **4 marks**
- b. Calculate the depreciation expense for the first year using both methods. **4 marks**
- c. Show an extract of the Balance Sheet as at 31 December 2024 assuming the business adopted the reducing balance method of depreciation. **2 marks**
- d. Explain the likely effect on profit of each depreciation method over the life of the asset. **2 marks**

END OF QUESTION BOOK

Name: _____ Teacher: _____

ACCOUNTING UNITS 3 AND 4

Practice written examination 2024

Reading time: 15 minutes

Writing time: 2 hours

ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all questions in the spaces provided in this book.
- Write your name and your teacher's name in the spaces provided above on this page.
- Refer to the **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.

Question 1 (12 marks)

a. 5 marks

General Journal

| Date 2024 | Details | Debit | Credit |
|--------------|---------|-------|--------|
| | | | |
| | | | |
| | | | |
| | | | |
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| | | | |
| | | | |
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| | | | |
| | | | |

b. 1 mark

| | |
|---|--|
| Calculation | |
| Cost of Sales for the month ending 31 October 2024 | |

c.

4 marks

| |
|----------------------|
| Working Space |
|----------------------|

| Inventory item: Threading Machines | | | | | Cost method: FIFO | | | | | |
|------------------------------------|----------|-----|------|-------|-------------------|------|-------|---------|------|-------|
| Supplier: Bead Era Pty Ltd | | | | | | | | | | |
| Date 2024 | Document | IN | | | OUT | | | BALANCE | | |
| | | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total |
| 1 Oct | Balance | | | | | | | 1 | 30 | 30 |
| | | | | | | | | 3 | 50 | 150 |
| 5 Oct | CN 35 | | | | 1 | 30 | 30 | 3 | 50 | 150 |
| 13 Oct | Inv. 123 | 20 | 60 | 1 200 | | | | 3 | 50 | 150 |
| | | | | | | | | 20 | 60 | 1 200 |
| 15 Oct | Inv. 650 | | | | 3 | 50 | 150 | | | |
| | | | | | 3 | 60 | 180 | 17 | 60 | 1 020 |
| 26 Oct | CN 46 | 1 | 60 | 60 | | | | 18 | 60 | 1 080 |
| | | | | | | | | | | |
| | | | | | | | | | | |

d. 2 marks

| |
|----------------------|
| Description 1 |
| |
| |
| Description 2 |
| |
| |

Question 2 (18 marks)

a. 6 marks

General Journal

| Date 2024 | Details | Debit | Credit |
|--------------|---------|-------|--------|
| | | | |
| | | | |
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| | | | |
| | | | |

b. 3 marks

Explanation

c.

3 marks

WinterWarmer Balance Sheet (extract) as of 1 January 2024

| Current Liabilities | \$ | \$ |
|----------------------------|-----------|-----------|
| | | |
| | | |
| | | |
| | | |
| | | |

d.

3 marks

| Accounting Element |
|---------------------------|
| Explanation |
| |
| |
| |
| |

e.

3 marks

Working Space

General Journal

| Date 2024 | Details | Debit | Credit |
|----------------------|----------------|--------------|---------------|
| | | | |
| | | | |
| | | | |

Question 3 (10 marks)

a.

7 marks

Working Space

PROFIT AND LOSS SUMMARY

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|-----------|-----------------|--------|-----------|-----------------|--------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

CAPITAL

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|-----------|-----------------|--------|----------------|-----------------|--------|
| | | | 2023 1 July | Balance | 80 000 |
| | | | | | |
| | | | | | |
| | | | | | |

b.

3 marks

Explanation

—

|

Question 4 (10 marks)

a.

2 marks

| | |
|----------------------------------|--|
| Working space | |
| GST paid on cash payments | |

| | |
|--|--|
| Working space | |
| Cash payments to Accounts Payable | |

b.

5 marks

Retro Review
Cash Flow Statement (extract) for the period ended 31 December 2024

| | \$ | \$ |
|--|----|----|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

c.

3 marks

Explanation

Question 5 (12 marks)

a. 2 marks

Description

b. 4 marks

Discount Dallas

General Ledger

DISPOSAL OF DELIVERY VAN

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|------|-----------------|--------|------|-----------------|--------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

c. 2 marks

Explanation

d. 4 marks

Discount Dallas

General Journal

| Date 2024 | Details | Debit | Credit |
|--------------|---------|-------|--------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

Question 6 (8 marks)

a. 2 + 3 = 5 marks

Graham Consulting

General Journal

| Date 2024 | Details | Debit | Credit |
|--------------|---------|-------|--------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

b. 3 marks

Explanation

Question 7 (18 marks)

a. 4 marks

Pearce's Toys
General Ledger

ACCOUNTS RECEIVABLE

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|--------------|-----------------|--------|--------------|-----------------|--------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

b. 6 marks

Pearce's Toys
General Ledger

ACCOUNTS PAYABLE

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|--------------|-----------------|--------|--------------|-----------------|--------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

INVENTORY

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|--------------|-----------------|--------|--------------|-----------------|--------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

c. 3 marks

Explanation

d. 3 marks

Pearce's Toys
Cash Variance Report for the six months ended 30 June 2024

| | Budgeted | Actual | Variance | Fav/Unfav |
|-----------------------------|----------|--------|----------|-----------|
| Operating Activities | | | | |
| Cash Sales | 78 000 | 83 000 | | |
| Investing Activities | | | | |
| Cash Purchase of Shelving | | 22 500 | 1 500 | U |
| Financing Activities | | | | |
| Capital | 60 000 | | 10 000 | U |

e. 2 marks

Explanation

Question 8 (12 marks)

a. 4 marks

Explanation

b. 4 marks

| | |
|--|----------------------|
| Working Space | |
| Depreciation expense – Straight-line method: | <input type="text"/> |
| Working Space | |
| Depreciation expense – Reducing balance method: | <input type="text"/> |

c. 2 marks

Blyth Bedrooms

Balance Sheet (extract) as at 31 December 2024

| | | |
|---------------------------|--|--|
| ASSETS | | |
| Non-Current Assets | | |
| | | |
| | | |

d. 2 marks

Definition

END OF ANSWER BOOK

Suggested solutions

Question 1 (12 marks)

a. 5 marks

General Journal

| Date | Details | Debit | Credit | |
|--------|------------------------------|-------|--------|---|
| 5 Oct | Accounts Payable – T.Swizzle | 33 | | 1 |
| | Inventory | | 30 | 1 |
| | GST Clearing | | 3 | |
| 26 Oct | Sales Return | 120 | | 1 |
| | GST Clearing | 12 | | |
| | Accounts Receivable | | 132 | 1 |
| | Inventory | 60 | | 1 |
| | Cost of Sales | | 60 | |

b. 1 mark

| | |
|---|--------------|
| Calculation | |
| Sales less Sales Returns: | |
| $(3 \times 50 + 3 \times 60) - (1 \times 60) =$ | |
| Cost of Sales for the month ending 31 October 2024 | \$270 |

c. 4 marks

Working Space:

Calculation for Net Realisable Value (NRV)

Estimated Selling Price - Direct Selling
Expense =

$\$65 - \$7 = \$58$ per unit

$\$58 \times 12$ units = \$696

Calculation for Inventory Write-down

Cost - NRV =

$\$60 - \$58 = \$2$ per unit

$\$2 \times 12$ units = \$24

| Inventory item: Threading Machines | | | | | Cost method: FIFO | | | | | |
|------------------------------------|----------|-----|------|-------|-------------------|------|-------|---------|------|-------|
| Supplier: Bead Era Pty Ltd | | | | | | | | | | |
| Date 2024 | Document | IN | | | OUT | | | BALANCE | | |
| | | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total |
| 1 Oct | Balance | | | | | | | 1 | 30 | 30 |
| | | | | | | | | 3 | 50 | 150 |
| 5 Oct | CN 35 | | | | 1 | 30 | 30 | 3 | 50 | 150 |
| 13 Oct | Inv. 123 | 20 | 60 | 1 200 | | | | 3 | 50 | 150 |
| | | | | | | | | 20 | 60 | 1 200 |
| 15 Oct | Inv. 650 | | | | 3 | 50 | 150 | | | |
| | | | | | 3 | 60 | 180 | 17 | 60 | 1 020 |
| 26 Oct | CN 46 | 1 | 60 | 60 | | | | 18 | 60 | 1 080 |
| 28 Oct | Memo 4 | | | | 6 | 60 | 360 | 12 | 60 | 720 |
| 28 Oct | Memo 5 | | | | 12 | 2 | 24 | 12 | 58 | 696 |

One mark each for correct value. (2 marks)

One mark each for correct recording into Inventory Card. (2 marks)

d. 2 marks

| |
|--|
| Description 1 |
| Identify inventory losses and the business can then implement counter measures i.e.: install security cameras. |
| Description 2 |
| Assist with ordering and replenishment to ensure correct inventory levels. |

Other similar answers are possible. (1 mark)

Question 2 (18 marks)

a.

6 marks

General Journal

| Date | Details | Debit | Credit | |
|-------|---|---------|---------|---|
| 1 Jan | Accounts Receivable | 67 100 | | 1 |
| | Accumulated Depreciation – Biofuel Treatment Unit | | 9 650 | |
| | Biofuel Treatment Unit | 25 000 | | |
| | Inventory | 159 000 | | 1 |
| | Prepaid Rent | 5 600 | | |
| | Vehicle | 38 000 | | |
| | Accounts Payable | | 86 500 | 1 |
| | Accrued Wages | | 6 000 | |
| | Bank | | 3 000 | |
| | GST Clearing | | 15 000 | 1 |
| | Loan – ZNA Bank | | 100 000 | |
| | Capital – S. Greensmoke | | 74 550 | 1 |
| | Commencement of double-entry records (Memo 4) | | | 1 |

Award 2 marks for correct recording as assets

Award 2 marks for correct recording of liabilities

Award 1 mark for inclusion of Capital (amount consequential)

Award 1 mark for narration

b.

3 marks

| Explanation |
|--|
| A double-entry accounting system records at least two effects on the Accounting equation for each transaction. [1 mark] |
| A reason for using a double-entry accounting system is to ensure the accounting equation is always balanced. [1 mark] |
| For example, when WinterWarmer purchases inventory on credit, it records both the increase in assets (inventory) with a debit entry and the increase in liabilities (accounts payable) with a credit entry ensuring the accounting equation (Assets = Liabilities + Equity) remains in balance providing accuracy and completeness in financial reporting. [1 mark] |

c.

3 marks

WinterWarmer Balance Sheet (extract) as at 1 January 2024

| Current Liabilities | \$ | \$ | |
|---------------------|--------|---------|---|
| Accounts Payable | 86 500 | | 1 |
| Accrued Wages | 6 000 | | |
| GST Clearing | 15 000 | | 1 |
| Bank | 3 000 | | |
| Loan – ZNA Bank | 6 000 | 116 500 | 1 |

d.

3 marks

| |
|---|
| Accounting Element Liability |
| Explanation |
| The accounting element is a Liability, where the bank overdraft of \$3000 meets the definition of a current liability [1 mark] as it is a present obligation of the business as a result of past events which will result in an outflow of economic benefits when it's repaid, likely to be within the next 12 months. [1 mark] The \$5000 bank overdraft limit is just a facility negotiated with the bank and the amount drawn down becomes the current liability. [1 mark] |

e.

3 marks

| Working | | |
|--|--|--|
| Original Recording | Correct Recording | Correction |
| DR Vehicle 38 000 CR Capital 38 000 | DR Vehicle 28 000 CR Capital 38 000 | DR Capital 10 000 CR Vehicle 10 000 |

General Journal

| Date 2024 | Details | Debit | Credit |
|--------------|--|--------|--------|
| Jan 31 | Capital [1 mark] | 10 000 | |
| | Vehicle [1 mark] | | 10 000 |
| | Correcting entry – vehicle incorrectly recorded at original purchase price, adjusted for fair value. (Memo 5) [1 mark] | | |

Question 3 (10 marks)

a.

7 marks

PROFIT AND LOSS SUMMARY

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|-----------|-----------------|----------------|-----------|-----------------|----------------|
| 30 June | Expenses [1] | 460 000 | 30 June | Revenues [1] | 580 000 |
| | Capital [1] | 120 000 | | | |
| | [1] | 580 000 | | | 580 000 |

CAPITAL

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|-----------|-----------------|----------------|----------------|-----------------------------|----------------|
| 30 June | Drawings[1] | 23 000 | 2023 1 July | Balance | 80 000 |
| 30 June | Balance | 177 000 | | Profit and Loss Summary [1] | 120 000 |
| | | 200 000 | | | 200 000 |
| | | | 30 June | Balance [1] | 185 000 |

b.

3 marks

| Explanation |
|--|
| The period assumption requires that accounting reports are prepared for a particular period of time. [1] |
| Net profit is calculated by revenues earned during the period less expenses incurred during the period. At the end of the period, revenue and expense accounts need to be 'cleared' and their balances reset to zero in readiness for the next period. [1] |
| The profit and loss summary account is used to facilitate these closing entries and also provides a ledger record of profit for each period. [1] |

Question 4 (10 marks)

a.

2 marks

| | |
|-----------------------------------|--------------------|
| Working space | |
| Rent \$12 000 x .1 = \$1 200 | |
| Electricity \$ 3 000 x .1 = \$300 | |
| GST paid on cash payments | \$1 500 [1] |

| | |
|--|---------------------|
| Working space | |
| Accounts Payable at start: \$10 000 | |
| + Credit Purchases plus GST: \$44 000 | |
| - Purchase Returns plus GST: \$2 200 | |
| - Discount Revenue (\$41 800 x .1): \$4 180 | |
| - Payments to Accounts Payable (\$41 800 x .9): \$37 620 | |
| = Accounts Payable at end: \$10 000 | |
| Cash payments to Accounts Payable | \$37 620 [1] |

b.

5 marks

Retro Review

Cash Flow Statement (extract) for the period ended 31 December 2019

| | \$ | \$ |
|---|----------|--------------|
| Cash Flow for Operating Activities | | |
| Cash Sales | 60 000 | |
| GST Received | 6 000 | |
| Accounts Receivable | 20 000 | 86 000 |
| Electricity | (3 000) | |
| Rent | (12 000) | |
| Wages | (10 000) | |
| Accounts Payable | (37 620) | |
| GST Paid | (1 500) | |
| GST Settlement | (14 800) | (78 920) |
| Net Cash Flows from Operations | | 7 080 |

The five marks available on this question are allocated as follows:
 one mark for both cash sales and GST received
 one mark for both accounts receivable and accounts payable
 one mark for electricity and rent
 one mark for GST paid and GST settlement
 one mark for titles

c.

3 marks

| Explanation |
|--|
| <p>Net profit is calculated in the Income Statement by subtracting expenses incurred from revenues earned in the period.</p> <p>Net Cash Flow from Operations is calculated by subtracting the net cash inflows and outflows from operating activities in the Cash Flow Statement in the period.</p> |
| <p>Net Cash Flow from Operations could be higher than Net Profit for any of the following reasons:</p> <ul style="list-style-type: none"> Cash items that do not affect profit Profit items that do not affect cash Items that affect both profit and cash, but by different amounts |
| <p>Retro Review's Net Cash Flow from Operations could be higher than their Net Profit for the same period as they have several profit items that do not affect cash such as Bad Debts Expense and Inventory losses. These are not cash flows and are therefore not included in the calculation of net cash from operating activities. This could result in cash from operating activities being greater than the net profit earned for the period.</p> |

Question 5 (12 marks)

a. 2 marks

| |
|---|
| Explanation: |
| Carrying value is the amount of \$20 000 shown in the Balance Sheet extract, which represents the value of the Delivery Vans yet to be depreciated [1 mark] plus the residual values of the Delivery Vans [1 mark]. |

b. 4 marks

Discount Dallas
General Ledger

DISPOSAL OF DELIVERY VAN

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|--------------|-----------------|---------------|--------------|----------------------------------|---------------|
| 30 Sep | Delivery Van | 50 000 [1] | 30 Sep | Acc. Dep. -Delivery Vans | 46 500[1] |
| | | | | Bank | 2 000[1] |
| | | | | Loss on Disposal of Delivery van | 1 500[1] |
| | | <u>50 000</u> | | | <u>50 000</u> |

c. 2 marks

| |
|--|
| Explanation: |
| Fair value represents a value given to the asset that represents the value the business expects to gain from the asset [1 mark]. It is determined by an agreed valuation of the asset of the market value of the asset [1 mark]. |

d. 4 marks

Discount Dallas
General Journal

| Date 2024 | Details | Debit | Credit | |
|--------------|--------------|--------|--------|---|
| 1 Dec | Delivery Van | 22 000 | | 1 |
| | Capital | | 20 000 | 1 |
| | GST Clearing | 200 | | 1 |
| | Bank | | 2 200 | 1 |

Question 6 (8 marks)

a. 2 + 3 = 5 marks

Graham Consulting

General Journal

| Date 2024 | Details | Debit | Credit | |
|--------------|-----------------------------|-------|--------|---|
| 30 Jun | Advertising expense | 600 | | 1 |
| | Accrued Advertising expense | | 600 | 1 |
| | | | | |
| 30 Nov | Accrued Advertising expense | 600 | | 1 |
| | Advertising expense | 3 000 | | 1 |
| | GST Clearing | 360 | | 1 |
| | Bank | | 3 960 | |

b. 3 marks

Explanation:

Under the accrual basis of accounting, profit is determined for each period **[1 mark]**. Expenses for a period will be determined when the consumption of a good or service has occurred and can be measured **[1 mark]** and so they are recognised when they are incurred, which is when the first advertisement was published and so that expense was recorded **[1 mark]**.

Question 7 (18 marks)

a. 4 marks

Pearce's Toys
General Ledger

ACCOUNTS RECEIVABLE

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|-----------|----------------------|---------------|-----------|------------------|---------------|
| 30 Jun | Sales / GST Clearing | 57 200 [1] | 30 Jun | Bank | 48 100 [1] |
| | | | | Discount Expense | 600 [1] |
| | | | | Balance | 8 500 [1] |
| | | <u>57 200</u> | | | <u>57 200</u> |

b. 6 marks

Pearce's Toys
General Ledger

ACCOUNTS PAYABLE

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|-----------|-----------------|---------------|-----------|--------------------------|---------------|
| 30 Jun | Bank | 73 500 [1] | 30 Jun | Inventory / GST Clearing | 89 100 |
| | Balance | 15 600 [1] | | | |
| | | <u>89 100</u> | | | <u>89 100</u> |

INVENTORY

| Date 2024 | Cross-reference | Amount | Date 2024 | Cross-reference | Amount |
|-----------|------------------|---------------|-----------|-----------------|---------------|
| 30 Jun | Accounts Payable | 81 000 [1] | 30 Jun | Cost of Sales | 65 000 [1] |
| | Bank | 9 000 [1] | | Inventory Loss | 2 000 [1] |
| | | | | Balance | 23 000 |
| | | <u>90 000</u> | | | <u>90 000</u> |

c. 3 marks

| Explanation |
|---|
| <p>Grant has overlooked the possibility that a percentage of his Accounts Receivable may be uncollectable. The accountant is concerned that the financial reports will not be a faithful representation of real world events.</p> <p>Under the period accounting assumption, profit is determined for each period [1 mark]. Profit determination involves the business recognising the expenses for the same period in which the revenue is earned [1 mark] and so he must ensure the business recognises all expenses, even if they aren't incurred, such as bad debts which may not occur until a future period [1 mark].</p> |

d. 3 marks

Pearce's Toys
Cash Variance Report for the six months ended 30 June 2024

| | Budgeted | Actual | Variance | Fav/Unfav |
|-----------------------------|----------|--------|----------|-----------|
| Operating Activities | | | | |
| Cash Sales | 78 000 | 83 000 | 5 000 | F |
| Investing Activities | | | | |
| Cash Purchase of Shelving | 21 000 | 22 500 | 1 500 | U |
| Financing Activities | | | | |
| Capital | 60 000 | 70 000 | 10 000 | U |

e. 2 marks

| Explanation |
|---|
| <p>Grant expected to contribute \$60 000 to the business but was required to contribute \$70 000 [1 mark]. This is likely due to the business having spent more than expected on the cash purchase of the shelving for the business [1 mark].</p> |

Question 8 (12 marks)

a. 4 marks

| |
|--|
| Explanation |
| The choice of depreciation should be based on the usage / earning pattern of the asset i.e.: as it generates revenue. [1 mark] The straight-line method is best used for assets that contribute evenly to revenue generation whereas assets that contribute to revenue unevenly should use the reducing balance method. [1 mark] |
| The reducing balance method allocates more depreciation in the early years than in the latter years as the asset is often more efficient in the early years than the latter years. [1 mark] |
| This is true of a Delivery Van which has moving parts and is more efficient when newer and less likely to break down, which is a cost to the business. [1 mark] |

Mark globally. Use allocated marks as a guide.

b. 4 marks

| | |
|--|-----------------|
| Working Space Historical Cost – Residual Value x Depreciation Rate = \$60 000 - \$10 000 [1 mark] x 20% [1 mark] = \$10 000 per year | |
| Depreciation expense – Straight-line method: | \$10 000 |
| Working Space Historical Cost x Depreciation Rate = \$60 000 [1 mark] x 35% [1 mark] = \$21 000 per year | |
| Depreciation expense – Reducing balance method: | \$21 000 |

c. 2 marks

Blyth Bedrooms

Balance Sheet (extract) as at 31 December 2024

| | | |
|-------------------------------|-------------------|-------------------|
| ASSETS | | |
| Non-Current Assets | | |
| Delivery Van | 60 000 [1] | |
| less Accumulated Depreciation | (21 000) | 39 000 [1] |

d. 2 marks

| |
|--|
| Explanation |
| Each depreciation method allocates a different amount of depreciation each period due to different methods of calculation and the depreciation rate applied [1 mark] . |
| However, the intention of each depreciation rate and method over the life of the asset is to result in a carrying value of \$10 000, which is the residual value, and so over the life of the asset the effect of depreciation on profit is the same [1 mark] . |

END OF SOLUTIONS

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