

Trial Examination 2021

VCE Accounting Units 3&4

Written Examination

Question Booklet

Reading time: 15 minutes

Writing time: 2 hours

Student's Name: _____

Teacher's Name: _____

Structure of booklet

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
9	9	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 booklet of 11 pages

Answer booklet of 13 pages

Instructions

Write your **name** and your **teacher's name** in the space provided above and on the front cover of the answer booklet.

Answer all questions in the answer booklet.

All written responses must be in English.

At the end of the examination

You may keep this question booklet.

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

Students are advised that this is a trial examination only and cannot in any way guarantee the content or the format of the 2021 VCE Accounting Units 3&4 Written Examination.

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Instructions

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


Question 1 (18 marks)

Repurposed Cycling restores used bicycles and sells them to bike shops. The business uses the Identified Cost method of inventory valuation and uses a 50% mark-up on inventory. All bikes are purchased from local suppliers.

The following information details the inventory movements of road bikes for May 2021.

- 9 May – purchase of 20 road bike frames at a cost of \$600 each (plus GST) and 20 road bike handlebars at a cost of \$100 each (plus GST) from Red Bike Repairs (Inv. 12)
- 12 May – sale of 5 road bikes, purchased on 9 May, to Green Bikes (Inv. 7)
- 22 May – return of 5 road bikes from Green Bikes, sold on 12 May, due to faulty brakes (Cr.N. 5)

On 31 May 2021, Repurposed Cycling's accountant found the following documents.

		RED BIKE REPAIRS 22 Redhill Road, BENDIGO VIC 3550 ABN 33 779 111 099			For period May 2021
Account of		Repurposed Cycling 14 Main Road, CASTLEMAINE VIC 3450			
Date	Details		Sales	Payments	Balance
1 May	Balance				11 000 dr
2	Rec. 114 – Cash			10 780	
2	Rec. 114 – Discount			220	nil
9	Inv. 12		15 400		15 400 dr
24	Cr.N. 9			3 850	11 550 dr
	Balance owing 31 May 2021				\$11 550 dr
CREDIT TERMS: 2/7, n/30					

Date	31 May 2021
Memo	44
To	Accounting department
Details	Due to low demand, 15 road bikes purchased from Red Bike Repairs on 9 May 2021 will be sold for \$750 (plus GST) each. Each customer who purchases one of these bikes will receive a free bike helmet (cost \$75 (plus GST)) with their purchase.
Signed: <i>V. Umberto</i>	

- Complete the Inventory Card provided for the road bikes. 5 marks
- Justify your treatment of the road bike handlebars purchased on 9 May 2021. 3 marks
- Identify **one** type of non-financial information that could be used to measure the quality of inventory provided by Repurposed Cycling's suppliers. 1 mark

- d.** Explain why there would have been an impact on the Balance Sheet if Repurposed Cycling had used the First-In, First-Out (FIFO) cost assignment method. 3 marks
- e.** To improve its net profit, Repurposed Cycling is considering increasing its mark-up on inventory to 100% and purchasing inventory from overseas suppliers. Discuss the financial and ethical issues that the owner should consider. 6 marks

Question 2 (8 marks)

On 1 June 2021, Coastal Books invested \$60 000 in a 3-year term deposit at a fixed rate of 3% per annum. Interest revenue is directly credited to the business's bank account in equal instalments on the last day of February, May, August and November. This is recorded in the business's bank statement.

Coastal Books prepares reports on a quarterly basis ended 31 March, 30 June, 30 September and 31 December.

- a. Explain how the business's bank statement upholds **one** qualitative characteristic. 3 marks
- b. Record the necessary General Journal entries for the quarter ended 30 September 2021.
A narration is **not** required. 5 marks

Question 3 (5 marks)

A business's accountant has provided you with the following General Ledger account.

GST Clearing

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
1 Jul.	Balance	225	10 Jul.	Accounts Receivable	170
13	Bank	400	15	Bank	225
17	Accounts Payable	120	19	Accounts Receivable	200
25	Accounts Receivable	30	22	Accounts Receivable	150
31	Balance	220	27	Accounts Receivable	250
		995			995
			1 Aug.	Balance	220

The business prepares its reports on the last day of each month. All inventory is purchased and sold on credit, and there were no sales returns or purchase returns during the month ended 31 July 2021.

a. Describe the transactions that took place on:

- 15 July
- 25 July.

2 marks

b. Explain how the closing balance in the GST Clearing General Ledger Account should be reported in the Balance Sheet as at 31 July 2021.

3 marks

Question 4 (7 marks)

Barista Coffee Machines is a supplier for cafés and restaurants. The following information is for the year ended 31 December 2021.

	Barista Coffee Machines	Industry average
Asset Turnover	3 times	4 times
Cash Flow Cover	7 times	5 times
Debt Ratio	52%	68%
Return on Assets	5.1%	6.2%
Return on Owner's Investment	6.3%	8.9%
Working Capital Ratio	1.4 : 1	1.1 : 1

- a. Discuss the effects of the Debt Ratio on the profitability and liquidity of Barista Coffee Machines's business performance. 6 marks
- b. State **one** limitation of using financial information to analyse business performance. 1 mark

Question 5 (18 marks)

Squared Living Furniture reports and budgets on a monthly basis. Sales are made on a cash and credit basis, and all purchases of inventory are on credit.

The accountant of Squared Living Furniture has provided you with the following forecasts for the month ended 31 December 2021.

Squared Living Furniture**Forecasts for the month ended 31 December 2021**

Total sales	\$50 000
Sales Returns	\$3 000
Purchases of Inventory	\$24 000
Inventory Gain	\$400
Inventory Write-down	\$1 000
Discount Revenue	\$850
Discount Expense	\$1 300
Accounts Receivable closing balance	\$30 000
Accounts Payable closing balance	\$25 800
Import Duties (incl. GST)	\$4 400

Additional information relating to forecasts for the month ended 31 December 2021

- The business uses a 100% mark-up on inventory.
 - Credit sales are 70% of total sales.
 - Drawings by the owner are \$3 000 cash and \$1 500 inventory.
 - All returns of inventory are to be returned to the supplier.
 - The accountant estimates that 4% of customers will not repay the amount owing and that the total amount of accounts receivable (incl. GST) to be written off as unrecoverable will be \$737.
- a.** Reconstruct the following General Ledger accounts.
- Accounts Receivable – to determine the cash to be received from credit customers
 - Allowance for Doubtful Debts – to determine the bad debts expense
 - Inventory – to determine the closing balance
- 12 marks
- b.** Prepare a Budgeted Income Statement (extract) up to and including Other Revenue for the month ended 31 December 2021.
- 6 marks

Question 6 (8 marks)

The owner of a business is concerned about the projected Gross Profit and Net Profit for the month ended 31 October 2021. The owner has proposed the following two strategies to improve business performance in this area.

Strategy 1	Strategy 2
<ul style="list-style-type: none"> increase the selling price from \$50 per unit to \$65 per unit source goods locally to eliminate the cost of Import Duties (This will increase the cost price per unit from \$25 per unit to \$30 per unit.) increase advertising to \$1 000 per month increase the number of sales staff from two full-time employees to four full-time employees 	<ul style="list-style-type: none"> increase the selling price from \$50 per unit to \$55 per unit continue to source goods from overseas and make no changes to the cost price per unit decrease the advertising expense to \$250 per month keep the number of sales staff constant (two full-time employees)

The business's accountant has provided the following information, taken from the Budgeted Income Statement for the month ended 31 October 2021.

Sales Revenue	\$40 000
Cost of Sales	\$20 000
Import Duties	\$500
Advertising	\$500
Wages	\$6 500

- a. Using the information provided, calculate the estimated Net Profit for each strategy. 4 marks
- b. Analyse the information provided and make a recommendation to the owner as to which strategy should be adopted. 4 marks

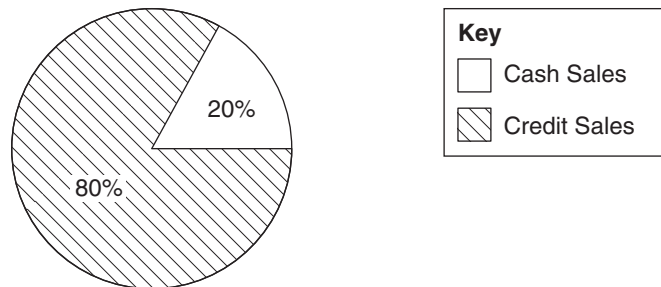
Question 7 (11 marks)

Everywhere Walkers sells outdoor activity gear to retail outlets. It reports quarterly, uses the FIFO inventory cost assignment method and uses a 100% mark-up on inventory. Credit terms for customers are n/30. The business purchases all inventory using cash and decided to make a bulk purchase of inventory in March 2021.

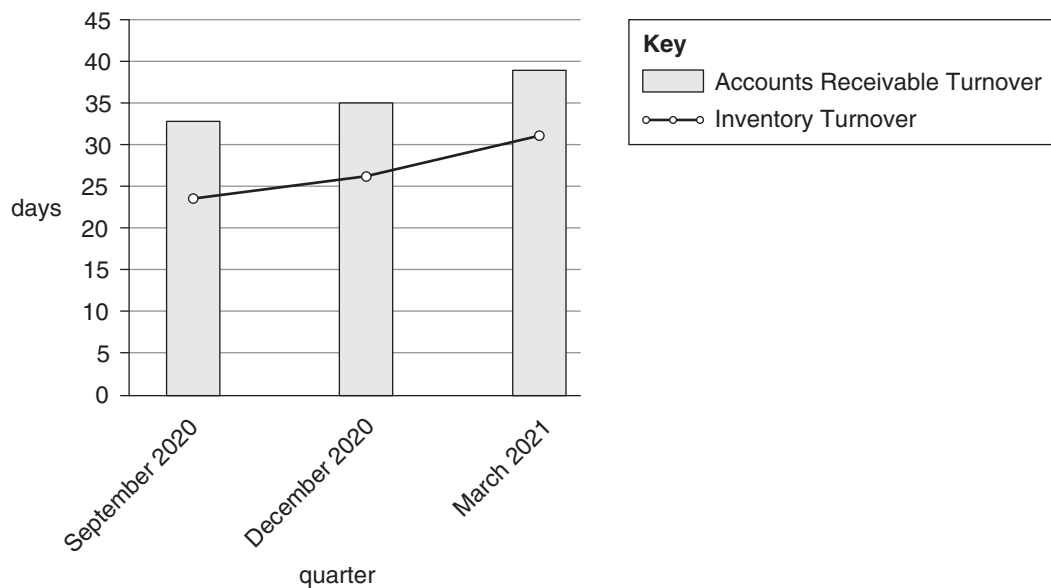
The business's accountant has provided you with the following information for the quarter ended 31 March 2021.

Total Expenses	\$64 750
Net Profit	\$11 470

Revenue for the quarter ended 31 March 2021



Financial data, September 2020–March 2021



- Explain why the owner of Everywhere Walkers should be concerned about the trends in the Accounts Receivable Turnover and Inventory Turnover. 4 marks
- Other than changing the credit terms, discuss **two** strategies that the owner could implement to improve the Accounts Receivable Turnover. 4 marks
- Using the information provided, complete the Profit and Loss Summary account in the General Ledger as at 31 March 2021. 3 marks

Question 8 (12 marks)

Gardendale Gardens sells gardening tools to nurseries and garden supply stores. The business reports annually on 30 June and uses a mark-up of 100% on inventory.

The following information has not yet been recorded.

- On 27 May 2021, Northerly Nursery paid a deposit of \$50. The total selling price was \$700 (plus GST) (Rec. 21). The goods were delivered to Northerly Nursery on 4 June 2021 (Inv. T11, indicating credit terms 3/7, n/30).
 - As at 30 June 2021, the pre-adjusted Trial Balance showed the Prepaid Rent Expense to be \$51 300. This included a payment of \$30 000 (plus GST) for 12-months rent paid on 1 January 2021.
 - On 30 June 2021, the accountant realised that a payment of Advertising (\$330 (incl. GST)) was incorrectly recorded as Drawings.
- a.** Record the necessary entries in the General Journal.
Narrations are **not** required. 9 marks
- b.** Explain how the business's payment of its rent expense on 1 January 2021 upholds **one** accounting assumption. 3 marks

Question 9 (13 marks)

Tech Hype reports annually on 30 June.

On 1 July 2017, Tech Hype purchased a delivery van from a car dealership for \$33 000 (incl. GST).

The carrying value of the delivery van on 30 June 2021 was \$9 800. On 1 July 2021, Tech Hype traded in the delivery van for \$8 000. The new delivery van cost \$43 500 (plus GST). At the time of purchase, Tech Hype also paid \$550 (incl. GST) for signage on the new delivery van and \$1 540 (incl. GST) for annual insurance for the new delivery van.

Tech Hype borrowed the remaining amount required to pay for the new delivery van from TER Bank.

- a.** Record the necessary entries in the General Journal for the disposal of the old delivery van and the purchase of the new delivery van.

Narrations are **not** required.

10 marks

- b.** Explain why the carrying value was greater than the trade-in allowance.

3 marks

END OF QUESTION BOOKLET