These are my detailed solutions to the publicly available VCE 2012 Sample Accounting Exam for the November Exam. You should also refer to the original sample exam questions available here http://www.vcaa.vic.edu.au/Documents/exams/account/accnt2-samp-w.pdf

I have reviewed these solutions and prepared them to the best of my ability and have aimed to complete them in the set time provided in the exam, however I do not guarantee that they are totally free from some minor mistakes.

***My qualifications*** **-** Chartered Accountant and specialised in Accounting at University on a scholarship at the University of Melbourne. ATAR of 96.04 in 2003.

**Just my simple tips to note:**

- In a big picture view, **revenue does not necessarily equal cash inflows and expenses does not necessarily equal cash outflows. Why? Revenue and Expenses include non-cash items.**
- Imagine accounting statements like looking into your fridge at home.
    - A **balance sheet** is like looking at the fridge at only one particular time. You see what's missing, what's there, what food belongs to someone else. If someone's taken your food, you might have an 'IOU' note (like a debtor)
    - A **cash flow** is like looking at your fridge everyday from day one to day 100, you see everything that comes in and out and that's all your focus on – the flows of what comes in and what goes out
    - Finally, an **income statement** is like looking at your fridge and seeing how well it's doing – this is more complicated, it takes into account the flows of what goes in and out but also considers what's already there, what can be written off as 'stock loss' or depreciating. For example, if you have an orange in the fridge that will last for another 4 days, each day you would 'reduce' the value of that orange in it's quality to be eaten. Until day 4 where it is depreciated to 0 and you can't eat that orange again!
- When calculating percentages, I transfer the percentage to a decimal and multiple it to the number that requires the percentage e.g. 24% of 50K, I would naturally type into the calculator 0.24 x 50000.
- My tips – know the big picture of what you're learning and then focus in on the detail to link your learning together!



**Legend**

Text formatted in this way represents my own solutions to the question. It also contains tips on how I approach the question.

*Text in this colour represent my tips for the exam in relation to obtaining marks.*

**Text formatted in this way represents notation on information about accounting you may or may not know.**

- Sales returns are 5% of sales, so 130K x 5% = 6500, and of this only 40% are credit sales so 6500 x 40% = 2600
- Balance at end 8,500 & Discount expense $600, means the remaining has been paid (57200 – 8500 – 2600 – 600)
    - Remember – debtor's is an asset account, DR means more CR means less

*Try to go through this as methodically as possible, ticking through each piece of information so that you don't miss any as you go along.*

**Question 3 (b) – Creditors Control**

| Date 2012 | Cross-Reference | Amount | Date 2012 | Cross-Reference | Amount |
|---|---|---|---|---|---|
| 31 Dec | Cash | 105270 | 31 Dec | Stock | 120870 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | 31 Dec | Balance | 15600 |
| | | | | | |

**Question 3 (b) – Stock Control**

| Date 2012 | Cross-Reference | Amount | Date 2012 | Cross-Reference | Amount |
|---|---|---|---|---|---|
| 31 Dec | Cash | 13430 | 31 Dec | Cost of Sales | 91000 |
| 31 Dec | Creditors | 120870 | | Stock Loss | 2300 |
| | | | | | |
| | | | | | |
| 31 Dec | Stock on hand | 41000 | | | |
| | | | | | |



Calculations & Important Info

- As COS = 70% of total sales, we can calculate COS being
    - 130K x 70% = 91,000
- Put in stock loss amount of 2300
- Put in the balances of stock on hand and creditor's balance
- From this we can now derive total stock purchase on cash and on credit
    - Purchases – less COS – stock loss = stock on hand, therefore
    - Purchases = 41000+2300+91000 = 134300
    - As 10% of purchases are cash, creditors will be 90% of purchases.
        - 0.9 x 134300 = 120870
        - 0.1 x 134300 = 13430

*and depreciation is calculated on the reducing balance, hence each depreciation amount year on year gets smaller)*

Fixture & Fittings Method of depreciation: Straight Line *(why? You can see that each year, the depreciation amount is the same)*

Justification: As Mark Brown is in the business of 'Mega Movers' construction equipment would be of greatest productive use to the business in its first year of operations and less so afterwards. It is appropriate to depreciate fixtures and fittings equally over the four years as it is simpler and that category of fixed assets provide an ongoing use.

**Question 5 (b)**

Calculation

Historical Cost = 40K

2008-09 Depreciation = 30% x 40K = 12K, balance = 40-12 = 28

2009-10 Depreciation = 30% x 28K = 8.4K, balance = 28 – 8.4 = 19.6K

2010-11 Depreciation = 30% x 19.6K = 5.88K, balance = 19.6 – 5.88 = 13.72K

2011-12 Depreciation = 30% x 13.72K = 4116, balance = 13720 – 4116 = 9604

Total depreciation = 12K + 8.4K + 5.88K + 4116 = 30396

Mark's Mega Movers Balance Sheet (extract) as at 30 June 2012

| Non-current assets | $ | $ |
|---|---|---|
| Construction Equipment | 40000 | |
| Accumulated Depreciation | (30396) | 9604 |
| | | |



**Question 6 (a)**

***Delivery Van***

| Date 2012 | Cross-Reference | Amount | Date 2012 | Cross-Reference | Amount |
|---|---|---|---|---|---|
| 1/10 | Accounts Payable (New delivery van) | 42000 | | Disposal of Old Delivery Van | 28000 |
| | | | | | |
| | | | | | |

- Note that GST isn't included because it would be under the GST accounts and it doesn't add to the true cost of the asset.
- Note also that the invoice doesn't indicate that cash has been paid, therefore the account isn't cash, but rather, accounts payable.

The purchase of the new delivery van has had a negative impact on the financial performance of Gen Domestics in the reporting period as overall it put more pressure on Gen Domestics ability to service their debt. This is for the following reasons as with the delivery van:

- The asset turnover has moved from 2 to 1.2 times which means that the Gen Domestics isn't using the delivery van well to produce revenue, rather it has added an asset which isn't assisting in revenue generation.
- The return on assets has moved from 25% to 18% indicated that the delivery van hasn't contributed to producing profit
- The debt ratio has increased substantially from 24% to 38% indicating that the van is likely to have been funded by borrowings.
- The working capital ratio has decreased substantially from 1.2:1 to 0.8:1 strongly suggesting a reduction in Gen Domestics ability to repay its bills.

Given the above, the unbudgeted purchase of the van has increased how much Gen Domestics is funded by debt but also it has reduced Gen Domestics' ability to repay its debts which signal a negative impact in its financial performance.

**Asset turnover indicates how well a business is using its assets to produce revenue. It is calculated as revenue divided by assets.**

**Return on assets indicates how well a business is using its assets to produce profit. It is calculated as net income (or profit) divided by assets.**

**The asset turnover ratio formula only looks at revenues and not profits. This is the distinct difference between return on assets and the asset turnover ratio, as return on assets looks at net income, or profit, relative to assets.**

**Debt ratio is an indicator of the percentage of a company's assets that are provided via debt. It is calculated as total debt divided by total assets.**

**Working capital ratio is an indicator of a business' ability to pay its bills. It is calculated as current assets divided by current liabilities.**

*In this section, you can see that it's worth four marks and that there are four indicators which differ from the two scenarios of pre-van purchase and post-van purchase. This strongly suggests that you should comment on each one of the indicators to obtain the full four marks.*

*Note how I make a blanket statement overall of what the impact is with the van and then address each item individually. This is generally how I would approach analysis type questions.*



**Question 7 (a)**

Calculation:

Each set = $7 AUD (Inv 245),