



ACCOUNTING ASSESSMENT TASK

2019

Unit 3 - Outcome 1B

Recording and analysing financial data

Reading time: 10 minutes

Writing time: 40 minutes

SUGGESTED ANSWERS/SOLUTIONS

Note to teachers and students

All completed assessment material (including question booklets) should be collected by the teacher and returned to students upon the completion of Unit 1.

Question 1 – Christos' Chairs (8 marks)

a. Record the transactions in the 'Baltimore' chair inventory card.

5 marks

ITEM: 'Baltimore' chair					Cost method: First In, First Out					
SUPPLIER: Portia's Plastics										
		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/03	Balance							8	30	240
08/03	Inv. 681	20	40	800				8	30	240
								20	40	800
16/03	Inv. 225				8	30	240			
					7	40	280	13	40	520
19/03	C/N. 13	3	40	120				16	40	640
21/03	C/N. 87				3	40	120	13	40	520
31/03	Memo 42				1	40	40	12	40	480

1 mark – per date entry

b. Explain one ethical issue Christos should consider when choosing a supplier.

2 marks

Ethical considerations refer to the impact choices made by the business have on society and the environment. **(1 mark)**

Christos should consider how the supplier, Portia's Plastics, dispose of their waste from the manufacturing process / where Portia's Plastics source their inputs / whether Portia's Plastics have a good reputation for treating their employees fairly. **(1 mark)**

c. Excluding the identification of an inventory loss or inventory gain, state one benefit of using inventory cards in the management of inventory.

1 mark

- help with the re-ordering of inventory
- identifies fast and slow moving lines of inventory
- provides an estimate of inventory balances at any point in time

Question 2 – Katrina's Kitchens (6 marks)

- a. Record the General Journal entry required on 17 April 2019 to record Invoice 4582.

A narration is not required.

4 marks

General Journal

Date	Details	Debit	Credit
17/04	Inventory	1 980	
	Freight Inwards	70	
	GST Clearing	205	
	Accounts Payable – Creative Clays		2 255

1 mark – per line entry

- b. Justify your treatment of the Freight Inwards when preparing the General Journal entry in part a.

2 marks

Even though the Freight Inwards was a cost incurred in getting the inventory into a location ready for sale (**1 mark**), it can't be allocated to each individual unit of inventory on a logical basis as multiple lines of inventory were delivered, therefore it was treated as a period cost and recorded separately in the General Journal. (**1 mark**)

Question 3 – Fred's Fridges (3 marks)

- a. Calculate the closing value of Inventory as at 31 May 2019 if Fred's Fridges used the First In, First Out cost assignment method instead of the Identified cost assignment method.

1 mark

10 @ \$920 = \$9 200

- b. Explain why the Identified Cost method is more suited to Fred's Fridges than the First In, First Out method.

2 marks

As Fred's Fridges sells fridges, (which will tend to be a smaller number of higher priced inventory items and can be more easily specifically identified) the Identified Cost method may be more appropriate as Fred would be able to record the actual cost of each inventory item making the profit calculation more accurate. (**1 mark**)

Whereas, the First In, First Out method is based on an assumption that the cost prices are allocated in the order in which the items are purchased making the profit calculation not as accurate as the Identified Cost method. (**1 mark**)

Question 4 – Charlotte's Cars (6 marks)

a. Define the term 'net realisable value'.

1 mark

Estimated selling price (excluding GST) less any costs incurred in the marketing, selling and distribution of the item.

b. Record the General Journal entry required on 30 June 2018 in relation to the Westfield 'Marathon' cars.

A narration is required.

3 marks

General Journal

Date	Details	Debit	Credit
30/06	Inventory Write Down	7 800	
	Inventory		7 800
	3 Westfield 'Marathon' cars written down to NRV due to damage (Memo 71).		

1 mark – per line entry in General Journal

1 mark – narration including quantity, type of item, description of entry and memo

c. Explain how the valuation of the 'Marathon' car effects the Balance Sheet.

2 marks

As the inventory is valued at the lower of cost and net realisable value, the value of Assets (Inventory) reported on the Balance Sheet as at 30 June 2019 would be lower. **(1 mark)**

The Owner's Equity section of the Balance Sheet would also be lower as a result of the Inventory Write Down expense reducing profit. **(1 mark)**

Question 5 – Sam’s Suitcases (7 marks)

- a. Explain the importance of credit terms when assessing the Accounts Receivable Turnover of Sam’s Suitcases.**

2 marks

In order to make a more accurate assessment of the trend in the Accounts Receivable Turnover, the current result needs to be compared with the credit terms offered. **(1 mark)**

Even though the trend in the Accounts Receivable Turnover is favourable due to the number of days declining from 35 days to 30 days, the outcome remains unfavourable as the number of days still exceeds the 21 days credit terms offered. **(1 mark)**

- b. Discuss a strategy Sam could introduce to improve the Accounts Receivable Turnover further.**

3 marks

Suggested Approach

1 mark – identification of strategy

1 mark – advantage of strategy

1 mark – disadvantage of strategy

Sample Answer

One strategy Sam could introduce to improve the Accounts Receivable Turnover would be to increase the discount offered for prompt payment. **(1 mark)**

An advantage of increasing the discount offered for prompt payment is that it is likely that more Accounts Receivable balances will be repaid faster. **(1 mark)**

However, a disadvantage of increasing the discount offered for prompt payment is that it is likely that there will be an increase in Discount Expense which would decrease the profit. **(1 mark)**

- c. Explain a disadvantage of the trend in the Inventory Turnover for Sam’s Suitcases.**

2 marks

As Sam’s Suitcases is taking longer to sell their inventory, they are holding on to their inventory for longer. **(1 mark)**

By holding on to their inventory for longer, Sam’s Suitcases is at risk of holding inventory that are previous models or are not as popular, leading to the possibility of incurring an Inventory Write Down expense. **(1 mark)**