



ACCOUNTING ASSESSMENT TASK

2019

Unit 4 - Outcome 1

Extension of recording and reporting

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 4.

Question 1 – Bob’s Brooms (15 marks)

a. Record each transaction in the General Journal.

Narrations are not required.

3 marks

General Journal

Date	Details	Debit	Credit
01/01	Bank	25 000	
	Loan – MNC Bank		25 000
	Van	36 000	
	GST Clearing	3 600	
	Bank		39 600

1 mark – Bank and Loan – MNC Bank \$25 000 entries

1 mark – Van and GST Clearing entries

1 mark – Bank \$39 600 entry

b. Explain how Bob should determine the appropriate method of depreciation for the Van.

4 marks

If the Van is expected to generate the same amount of revenue each period, **(1 mark)** the straight line method should be adopted as it allocates the same amount of cost each period. **(1 mark)**

However, if the Van is expected to be more productive in its earlier years and therefore generate more revenue in those periods, **(1 mark)** the reducing balance method should be adopted. The reducing balance method allocates more cost in the earlier years and less in the Van’s later years, when it is less productive and therefore matches the Van’s revenue earning pattern with the allocation of the expense. **(1 mark)**

c. State how the \$12 000 received from the sale of the Van would be classified in the Cash Flow Statement of Bob’s Brooms for the year ended 30 June 2019.

1 mark

Investing Activities Inflow

d. Complete the following accounts in the General Ledger as at 30 June 2019

- **Accumulated Depreciation – Van**
- **Loss on Disposal - Van**

5 marks

Accumulated Depreciation - Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/06	Disposal of Van	15 000	01/07	Balance	9 000
			30/06	Depreciation Expense - Van	6 000
		15 000			15 000

Loss on Disposal - Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/06	Disposal of Van	9 000	30/06	Profit and Loss Summary	9 000
		9 000			9 000

1 mark – per entry

e. Explain why Bob's Brooms experienced a loss on disposal of the Van as at 30 June 2019.

2 marks

A loss on disposal of the Van occurred as the proceeds received from the sale of the Van was less than its carrying value. **(1 mark)**

This was due to under depreciating the Van due to over estimating the Van's useful life. **(1 mark)**

Question 2 – Wang’s Watches (6 marks)

Grace Wang owns Wang’s Watches, a small business that prepares reports on an annual basis on 30 June.

On 28 June 2019 Wang’s Watches received a \$6 000 deposit for an order worth \$33 000 including GST that will not be completed until September 2019.

Grace has recorded the \$6 000 as Unearned Revenue and \$30 000 as a Credit Sale on 28 June 2019.

Discuss whether Grace’s recording of these transactions is ethical and in accordance with qualitative characteristics.

Suggested Approach

Students are to be marked globally with high scoring responses addressing the ethical requirements of accountants adhering to the qualitative characteristics of relevance and faithful representation. Students who identify that Grace has correctly recorded the \$6 000 deposit as Unearned Revenue and explain how it satisfies the definition of a current liability shall also be allocated some marks at their teacher’s discretion.

Sample Answer

Business owners, in consultation with their accountants, need to ensure that assumptions and qualitative characteristics have been followed when preparing and presenting financial statements to users for the purpose of making and evaluating decisions regarding the allocation of their economic resources.

The relevance characteristic requires all transactions that have occurred during a period to be included should the information be capable of making a difference to the decisions made by users. Grace has correctly recorded the receipt of the \$6 000 on 28 June as Unearned Revenue and would be reported in the Balance Sheet as a Current Liability. The \$6 000 represents a present obligation of Wang’s Watches to provide watches to the customer within 12 months after the end of the reporting period. This is expected to occur in September at the earliest.

However, it is the intentional recording of the GST exclusive amount of the contract as a credit sale on 28 June 2019 by Grace that is unethical and not in accordance with the faithful representation characteristic. The amount of revenue and assets, and therefore owner’s equity, reported by Wang’s Watches for the year ended 30 June 2019 would be deliberately overstated and not be a faithful representation of the real-world economic event of the contract. Wang’s Watches has not earned the revenue, yet the amount of the contract has been reported as revenue on the date it was signed and not when it has been earned.

The deliberate overstating of revenue could be viewed as unethical practice undertaken by Grace if Wang’s Watches was to use the inaccurate and misleading financial statements as the basis for a loan application or fulfilling existing loan requirements.

Question 3 – Peta's Paint (13 marks)

- a. Prepare the necessary balance day adjustment entries as at 30 June 2019 in the General Journal.

Narrations are not required.

10 marks

General Journal

Date	Details	Debit	Credit
30/06	Allowance for Doubtful Debts	2 500	
	GST Clearing	250	
	Accounts Receivable		2 750
	Depreciation Expense – Van	2 430	
	Accumulated Depreciation – Van		2 430
	Rent Expense	7 200	
	Prepaid Rent Expense		7 200
	Wages	1 700	
	Accrued Wages		1 700
	Bad Debts	2 520	
	Allowance for Doubtful Debts		2 520

1 mark – per line entry (except Wages / Accrued Wages entry allocated a total of 1 mark)

- b. Show the effect on the accounting equation of recording this Wages payment.

3 marks

Item	Increase / Decrease / No Effect	Amount
Assets	Decrease	\$2 800
Liabilities	Decrease	\$1 700
Owner's Equity	Decrease	\$1 100

1 mark – per line entry

Question 4 – Shirley's Shirts (9 marks)

Prepare a fully classified Income Statement for the year ended 30 June 2019.

Shirley's Shirts Income Statement for the year ended 30 June 2019

	\$	\$
Revenues		
Cash Sales	63 900	
Credit Sales	49 200	
Less: Sales Returns	3 180	109 920
Less: Cost of Goods Sold		
Cost of Sales	54 960	
Freight Inwards	1 630	56 590
Gross Profit		53 330
Less: Inventory Loss	2 040	
Less: Inventory Write Down	1 290	3 330
Adjusted Gross Profit		50 000
Plus: Other Revenue		
Profit on Disposal - Equipment		2 040
		52 040
Less: Other Expenses		
Advertising	3 200	
Depreciation Expense – Equipment	4 840	
Discount Expense	231	
Interest Expense	2 700	
Rent Expense	24 000	
Wages	28 800	63 771
Net Profit / (Loss)		(11 731)

- 1 mark** – Cash Sales and Credit Sales
- 1 mark** – Sales Returns
- 1 mark** – Cost of Sales
- 1 mark** – Freight Inwards
- 1 mark** – Inventory Loss
- 1 mark** – Inventory Write Down
- 1 mark** – Profit on Disposal - Equipment
- 1 mark** – any three Other Expenses items
- 1 mark** – remaining three Other Expenses items
- 1 mark deducted** – incorrect formatting (including absence of labels)

Question 5 – Grahame's Gifts (7 marks)

- a. Explain to Grahame how it is possible for the Net Profit Margin to remain constant yet the Return on Assets improve.**

2 marks

As the average Assets and the Net Profit Margin (NPM) have remained constant, the Return on Assets (ROA) has improved as the actual profit has increased. **(1 mark)**

The actual profit has increased due to an increase in the Asset Turnover, meaning that the assets have been more productive in generating revenue which when a constant NPM is applied will increase the net profit of the business. Relative to constant assets, the higher profit will result in an increase in the ROA. **(1 mark)**

- b. State one non-financial indicator Grahame could use to assess the performance of his business.**

1 mark

- results of customer satisfaction surveys / number of repeat customers
- number of sales returns / quality of products
- number of hits on business website

- c. Explain how the trend in the Debt Ratio could positively impact Grahame's Return on Owner's Investment.**

2 marks

An increase in the Debt Ratio means the business has a greater reliance on borrowed funds and less reliance on the owner's capital. **(1 mark)**

As the level of average assets has remained constant, the increase in the debt ratio must have resulted from a decrease in Owner's Equity through drawings and an increase in the funding of assets through higher levels of debt. As the Owner's Equity decreases the business is using external funds to fund assets to earn profit and the owner is entitled to the profit resulting in a higher Return on Owner's Investment. **(1 mark)**

- d. Explain how the trend in the Debt Ratio could negatively impact the stability of Grahame's Gifts.**

2 marks

Stability refers to the ability of the business to meet its debts and continue its operations in the long-term. **(1 mark)**

An increase in the Debt Ratio would generally have a negative effect on the business to continue its operations in the long term as the business would be charged more in interest and more cash would be leaving the business in the form of both loan repayments and interest expense payment making it more difficult to continue operations in the long-term. **(1 mark)**

END OF SUGGESTED SOLUTIONS