

2019

VCE

Accounting

Trial Examination

Suggested Answers



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Question 1 (15 marks)**a.**

Date	Details	Debit	Credit
31/12	Disposal of Shelving	20 000	
	Shelving		20 000
	Accumulated Depreciation – Shelving	16 000	
	Disposal of Shelving		16 000
	Shelving	2 000	
	Disposal of Shelving		2 000
	Disposal of Shelving	2 000	
	Loss on Disposal of Shelving	2 000	
31/12	Bank	25 500	
	Loan – TB Bank		25 500
31/12	Shelving	23 000	
	GST Clearing	2 500	
	Bank		25 500

6 marks for first entry**2 marks for second entry****2 marks for third entry****10 marks****b.**

When selecting a depreciation method, Smash Sports need to take into consideration the revenue earning pattern of the asset. As shelving is used to hold inventory in the business and has no moving parts it is likely to have a consistent revenue earning pattern in which it would contribute evenly to the revenue of the business over its useful life. Straight-line depreciation will match the expense incurred at the same rate each year which ensures that it complies with the accrual basis assumption that requires the business to recognise expenses then they are incurred.

1 mark for revenue earning pattern**1 mark for consistent pattern****1 mark for matching of expense incurred according to the accrual basis assumption.****3 marks**

Question 1 (continued)**c.**

Smash Sports needs to ensure that financial information can be compared with similar information with regard to other entities and with similar information for another period.

If the business changes its depreciation methods this would result in a breach of Comparability.

1 mark for comparability**1 mark for linking definition****2 marks****Question 2 (12 marks)****a.****Accounts Payable**

Date	Cross-reference	Amount (\$)	Date	Cross-reference	Amount (\$)
30/6	Discount Revenue	200	1/6	Balance	15 000
30/6	Inventory/GST Clearing	550	30/6	Inventory/GST Clearing	13 200
30/6	Bank	7 450			
30/6	Balance	20 000			
		28 200			28 200
			1/7	Balance	20 000

4 marks**b.****Accounts Receivable**

Date	Cross-reference	Amount (\$)	Date	Cross-reference	Amount (\$)
1/6	Balance	19 000	30/6	Discount Expense	150
30/6	Sales/GST Clearing	16 500	30/6	Sales Returns/GST Clearing	1 100
			30/6	Bank	17 250

			30/6	Balance	17 000
		35 500			35 500
1/7	Balance	17 000			

4 marks**Question 2 (continued)****c.**

The accounts payable general ledger account would be reported as a current liability, accounts payable of \$15 000 as it is a present obligation of the business to transfer an economic resource (cash) as a result of past events that reasonably expected to be settled (paid to the account payable) within a 12 month period.

1 mark for current liability of \$15 000**1 mark for definition****2 marks****d.**

Reconstructing the accounts payable account general ledger account will allow Samantha to determine the cash required to cover accounts payable during June. The business would use the projected cash payment to determine whether they will be able to meet their short-term debts as they fall due.

1 mark for determining cash requirements**1 mark for determining whether they can meet their short-term debts as they fall due.****2 marks**

Question 3 (6 marks)**a.**

Date	Details	Debit	Credit
28/8	Bank	1 000	
	Unearned Sales Revenue		1 000
	Deposit received for 200 Coffee Mugs from Suite Hotels (Rec 7)		
4/10	Unearned Sales Revenue	1 000	
	Account Receivable – Suite Hotels	1 200	
	Sales Revenue		2 000
	GST Clearing		200
	Cost of Sales	1 100	
	Inventory		1 100
	Delivery of 100 Mugs to Suite Hotels (Inv 11)		
31/10	Accounts Receivable – Suite Hotels	2 200	
	Sales		2 000
	GST Clearing		200
	Cost of Sales	1 100	
	Inventory		1 100
	Delivery of remaining 100 Mugs to Suite Hotels (Inv 22)		

2 marks for each entry**6 marks**

Question 4 (24 marks)**a.**

The accrual basis assumption recognises expenses when they are incurred in order to calculate an accurate net profit. As the prepaid advertising is paid but not yet incurred it is not recorded as an expense until the advertising appears in the magazine.

1 mark for definition**1 mark for a link to the definition****2 marks****b.**

Date	Details	Debit	Credit
31/12	Rent Expense	18 000	
	Prepaid Rent Expense		18 000
31/12	Advertising Expense	3 000	
	Prepaid Advertising Expense		3 000
31/12	Drawings	5 000	
	Inventory		5 000
31/12	Depreciation – Shelving	2 350	
	Accumulated Depreciation – Shelving		2 350
31/12	Inventory	4 000	
	Inventory Gain		4 000

2 marks for each entry**10 marks**

Question 4 (continued)

c.

Captureit**Income Statement for the quarter ended 31 December 2019**

	\$	\$
Sales	140 000	
Less Sales Returns	4 000	136 000
Cost of Goods Sold		
Cost of Sales	68 000	
Delivery in	2 100	70 100
Gross Profit		65 900
Add Inventory Gain	4 000	
Adjusted Gross Profit		69 900
add Other Revenue		
Discount Revenue	420	70 320
less Other Expenses		
Rent Expense	18 000	
Advertising Expense	3 000	
Wages	38 000	
Depreciation of Shelving	2 350	61 350
Net Profit		8 970

8 marks

d.

Captureit**Balance Sheet (extract) as at 31 December 2019**

Current Assets	\$	\$
Accounts Receivable	39 400	
Inventory	145 000	
Prepaid Advertising	9 000	

GST Clearing	2 000	195 400

4 marks**Question 5 (9 marks)****a.**

Basic Home = $15 * 105 = \$ 1\,575$
 Super Home = $20 * 305 = \$ 6\,100$
 Business = $7 * 1005 = \$ 7\,035$
 = $\$14\,710$

1 mark**b.**

GST is not included in the cost price of the Super Home Printer as it does not provide economic benefit to the business from the inventory and the GST will be refunded by the ATO.

2 marks**c.**

Cost = \$6 100
 Net Realisable Value = $\$300 - \$30 = \$270 * 20 \text{ printers} = \$5\,400$
 Lower of cost and net realisable value is \$5 400

2 marks**d.**

Date	Details	Debit	Credit
31/12	Inventory Loss	1 005	
	Inventory		1 005

	Inventory Writedown	700	
	Inventory		700

2 marks for each entry

4 marks

Question 6 (19 marks)**a.**

Date	Details	Debit	Credit
1/1	Bad Debts	3 000	
	Allowance for Doubtful Debts		3 000
	Recording of allowance for doubtful debts based on assumption of 1% of net credit sales (Memo 18)		

1 mark for accounts**1 mark for \$3 000****1 mark for narration****3 marks****b.**

Date	Details	Debit	Credit
29/8	Allowance for Doubtful Debts	900	
	GST Clearing	90	
	Accounts Receivable – AA Plants		990

1 mark for entry**1 mark for amounts****2 marks****c.**

When the bad debt is written off there is no effect on the accounting equation. Assets remain the same as accounts receivable decrease by \$990, although this is offset by an increase in GST asset of \$90 as the GST is no longer payable to the ATO and the allowance for doubtful debts is reduced by \$900. There is no impact on liabilities or owner's equity.

1 mark for no movement in assets and explanation**1 mark for no movement in liabilities****1 mark for no movement in owner's equity****3 marks**

Question 6 (continued)**d.****Account Receivable – AA Plants**

Date	Cross-reference	Amount (\$)	Date	Cross-reference	Amount (\$)
1/1	Balance	990	29/8	Allowance for Doubtful Debts/GST Clearing	990
		990			990

Bad Debts

Date	Cross-reference	Amount (\$)	Date	Cross-reference	Amount (\$)
1/1	Allowance for Doubtful Debts	3 000	31/12	Profit and Loss Summary	3 000
		3 000			3 000

1 mark for opening balance**1 mark for credit entry in AR – AA Plants****1 mark for debit entry in Bad Debts****1 mark for closing and balancing****4 marks****e.**

Allowance for doubtful debts is recorded as a negative asset as it will result in the reduction of a present economic resource (account receivable) that will reduce the economic received by the business.

1 mark for negative asset**1 mark for definition**

2 marks

Question 6 (continued)**f.**

Students will provide a range of responses. They will need to consider the fact that the business needs to provide reports that are useful for decision making and will accurately recognise expenses when they are incurred if they are to calculate an accurate profit. When taking into account ethical considerations they will need to consider if they are deliberately misleading users of the reports.

Better responses will consider the impact of the initial assumption made to determine bad debts on the accrual basis and relevance.

Mark this question globally**5 marks****Question 7 (8 marks)****a.**

While industry average is a useful benchmark for a business as it provides a benchmark against competitors in a similar business, it can be problematic if there are differences in the way that the businesses operate. As Purrfect Pets specialises in a niche area there may not be many businesses that are similar. They may be benchmarking against different types of pet stores which may operate using different margins.

1 mark for operating in a niche business**1 mark for the other businesses operating differently.****2 marks****b.**

The move to online sales has resulted in a faster inventory turnover. While there has been a small increase in sales, the inventory turnover has moved from 68 days to 21 days which indicates that they are managing their inventory better. The move to online sales would allow them to purchase inventory on a just in time basis as customers would order inventory and wait for it to arrive.

Mark this question globally**4 marks**

Question 7 (continued)**c.**

Positive: Faster inventory turnover would reduce storage costs and potentially result in lower inventory writedown and inventory loss

Negative: Faster inventory turnover may result in the business not having sufficient inventory to meet the demands of customers.

1 mark for a positive**1 mark for a negative****2 marks****Question 8 (7 marks)****a.**

Cash Flows relating to the day to day trading activities of a business.

1 mark**b.**

Overall the business had positive cash flow. The cash flows from operating activities were positive which is a good sign and potentially is an indication of positive sales which lead to the profit figure. As the business is a new business they would have had to purchase non-current assets such as fixtures and fittings and office furniture which would have been the reason that investing activities were negative. They have received cash from the sale of investing activities which may indicate that they have unexpectedly upgraded some of the initial fixtures and fittings or furniture that were purchased. Further information would be required to determine why this has happened. While the business has had positive cash flows from operating activities, Sally has had to contribute cash to start the business and to purchase on current assets. Sally's cash contributions are the same as the cash flows required for investing activities which indicates that she has not used loans to fund these assets.

Mark this question globally**4 marks****c.**

Net Profit and Net Cash are not the same. Net profit is determined by subtracting expenses incurred from revenue earned while net cash is determined by subtracting cash paid from cash received. Sally has used capital contributions to fund the purchase of non-current assets.

1 mark for cash and profit no being the same.**1 mark for a reason.****2 marks**

End of suggested answers for the 2019 Kilbaha VCE Accounting Trial Examination

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