

2019 VCE Accounting (NHT) examination report

Specific information

This report provides sample answers or an indication of what answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

Question 1a.

Beachside Carpets Cash Receipts Journal

Date 2019	Details	Rec No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
Mar. 3	Capital	784	10 000					10 000	
8	Cash Sales	785	4 675			2 550	4 250		425
14	J Terrell	786	1 261	125	1 386				
21	R Chee	787	435	15	450				
22	K Martin	788	260	15	275				
29	G Long	789	440		440				
				155	2551				

Sales Journal

Date 2019	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
Mar. 2	D Starr	1655	408	680	68	748
9	J Terrell	1656	732	1 220	122	1 342
15	K Martin	1657	150	250	25	275
23	R Chee	1658	240	400	40	440

General Journal

Date 2019	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Mar. 2	Sales Return	140			
	GST Clearing	14			
	Debtors Control		154		
	Debtor – J Terrell				154
	Stock Control	84			
	Cost of Sales		84		
29	Bad Debts	440			
	Debtors Control		440		
	Debtor – G Long				440

Question 1b.**Debtors Control**

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Mar. 1	Balance	3 520	Mar. 31	Bank/Discount exp.	2 551
Mar. 31	Sales/GST Clearing	2 805		Sales Return/GST Clearing	154
				Bad Debts	440
				Balance	3 180
		6 325			6 325
April 1	Balance	3 180			

Question 1c.

Benefit 1: A control account for debtors keeps unnecessary detail out of the general ledger, which facilitates the preparation of the financial reports. It makes posting from the journal more efficient as totals are posted from the Sales and Cash Receipts Journals to the Control account.

Benefit 2: The Control account and the Subsidiary Ledger account can be checked against one another via the Debtors Schedule to detect any recording errors made during the period. The total of the schedule must equal the balance of the Control account, thus ensuring accuracy in recording.

Question 2a.**Stock Card**

Product: Acme dog brush					Cost Assignment Method: FIFO					
Date 2019	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Mar. 1	Balance							18	12	216
8	Invoice 473				14	12	168	4	12	48
12	Invoice TR282	20	14	280				4	12	48
								20	14	280
23	Credit Note 142	5	12	60				9	12	60
								20	14	280
24	Credit Note 234				5	12	60	4	12	48
								20	14	280
31	Memo 88				4	12	48			
					1	14	14	19	14	266

Question 2b.**Description:**

Assets: Debtors Control increases (\$336 + 33.60) while Stock Control decreases by \$168

Liabilities: GST Clearing increases by \$33.60

Owner's Equity: Sales increases by \$336 and Cost of Sales increases by \$168, resulting in an overall increase in Owner's Equity (Net Profit) \$168

Question 2c.**Pets Plus****General Journal**

Date 2019	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Mar. 24	Creditors Control	66			
	GST Clearing		6		
	Stock Control		60		
	Creditor: ZZZ Brushes			66	

Question 2d.

Advantage 1: may improve liquidity with less funds tied up in stock, so more cash available

Advantage 2: prevents items from becoming obsolete, which can damage profitability

Disadvantage 1: slow-moving items may be more profitable than other lines

Disadvantage 2: the deleted items may attract customers to the business, who may then purchase other items

Question 3a.

**Global Business Centre
General Journal**

Date 2019	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
April 30	Disposal of 3D printer	3 200			
	3D printer		3 200		
April 30	Acc. Dep'n of 3D printer	2 700			
	Disposal of 3D printer		2 700		
April 30	Sundry Creditor – Tex Computers	600			
	Disposal of 3D printer		600		
April 30	Disposal of 3D printer	100			
	Profit on Disposal of 3D printer		100		
April 30	3D printer	2 500			
	GST Clearing	250			
	Sundry Creditor – Tex Computers		2 750		

Question 3b.

Qualitative characteristic: relevance/understandability

Justification: Relevance requires all information likely to affect decision-making by management to be reported in financial reports at the end of a period. The balance owing to Tex Computers (\$1350) should be reported as a Current Liability in the Balance Sheet of the Global Business Centre. This present obligation of the business is likely to be settled within the next 12 months, is a Sundry Creditor and therefore is a Current Liability. This is relevant to management as it should be considered when budgeting for the next 12 months.

Question 3c.

Item	Operating/Investing/ Financing	Inflow/Outflow	Amount (\$)
Purchase of printer	Investing	Outflow	\$1 350

Question 4**Discussion:**

Liquidity – The rapid increase in Debtors Turnover indicates an inability on the part of the business to collect outstanding debts. This is most likely due to a loosening of credit terms, i.e. longer repayment period or the provision of credit to slow-paying customers. In the longer term there is a likely increase in bad debts.

Cash from debtors is increasing; however, payments to suppliers for stock are \$80 000 in June compared to \$82 000 in cash from debtors. Once payments for operating expenses are considered, the Net Cash Flow from operations would be negative.

Profitability – The Net Profit has fallen in each successive month to be a loss in June. This is due to the decline in the Gross Profit Margin, which can be found by dividing Credit Sales by unit sales ($70\,000/200 = 350 - 200 = 150$), which was \$150 per unit in April, \$70 in May and \$30 in June. Heavy discounting of sales has increased the number of goods sold but at a lower margin. Given expenses remain constant, the increase in sales has been due to heavy discounting of the sales price along with more generous credit terms.

Question 5a.**The Olive Merchant
General Journal**

Date 2019	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
May 31	Stock Loss	525			
	Stock Control		525		
31	Stock Write-Down	1 200			
	Stock Control		1 200		

Question 5b.**Explanation:**

Stock is valued at the lower of cost and NRV to ensure that potential losses are recognised when probable. This is consistent with the principle of conservatism. This meant that the 20 tins that had been recorded at a cost of \$105 each were written down by \$60 each to their NRV of \$45, i.e. by \$1200. This amount is expensed as Stock Write-Down.

Question 5c.

Calculation	
23 400 = 260 × 90	
14 700 = 140 × 105	
Cost of Sales for May 2019	\$38 100

Question 5d.

The Olive Merchant
Income Statement (extract) for the month ended 31 May 2019

	\$	\$
Revenue		
Sales		60 000
Less Cost of Sales		38 100
Gross Profit		21 900
Less Stock Loss	525	
Stock Write-Down	1 200	1 725
Adjusted Gross Profit		20 175

Question 6**Discussion:**

A variety of responses were possible for this question. Some responses included the following:

Current assets

- Debtors – An increase in the days debtors take to pay may occur because of poor management, the amount of outstanding debt increases without a similar increase in sales.
- Stock – An increase in the days it takes to turn stock into sales may be due to obsolete stock, poor location in the store or an excess of slow-moving items. More stock is being carried without an increase in sales.
- Bank – Loans may have been taken out or a capital injection made. If this increase in bank occurred without an increase in sales, asset turnover would decrease.

Non-current assets

- As non-current assets have increased over time, if sales remain constant the asset turnover would fall.
- Items such as equipment may be suffering breakdowns, leading to a loss of efficiency. Some assets may be outdated, not as reliable and may not be generating the same amount of revenue.
- It is possible that some new assets were acquired (such as display equipment), but they are yet to be fully utilised and are therefore yet to reach their full efficiency.

Question 7a.

Explanation: It is an expense because it is a reduction in an asset, and therefore a loss of economic benefits, which results in a decrease in Owner's Equity. It contributes to the generation of revenue.

Question 7b.

The Wedding Shop
General Journal

Date 2019	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Jun. 30	Rent Expense	84 000			
	Prepaid Rent		84 000		
30	Insurance Expense	18 000			
	Prepaid Insurance		18 000		
30	Sales	500			
	Prepaid Sales Revenue		500		
30	Interest Expense	400			
	Accrued Interest		400		

Question 7c.

Accounting principle: reporting period

Explanation: It is reasonable to assume that a vehicle would be more productive in its earlier years when it is most reliable and efficient. This means that the vehicle would generate more revenue in its earlier years and therefore when trying to match expenses with the revenue-earning capacity of the vehicles, the reducing balance method would be preferred as it allocates more expense in the earlier years and less in the latter years of its life.

Question 7d.

Explanation: In the Income Statement, Net Profit would be overstated by \$84 000 because the Rent expense would be understated. If the adjustment for Prepaid Rent was not made, the current assets in the Balance Sheet would be overstated and the Owner's Equity would also be overstated by \$84 000 because Net Profit would be overstated by the same amount.

Question 7e.

**The Wedding Shop
Balance Sheet (extract) as at 30 June 2019**

	\$	\$
Current Liabilities		
Accrued Interest Expense	400	
GST Clearing	3 400	
Creditors Control	20 000	
Prepaid Sales Revenue	500	24 300

Question 8a.

Stock Control

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Balance	108 000		Cost of Sales	417 000
	Creditors Control	413 000		Balance	104 000
		521 000			521 000

Creditors Control

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Bank	441 300		Balance	35 000
	Discount Revenue	8 000		Stock Control/GST Clearing	454 300
	Balance	40 000			
		489 300			489 300

Question 8b.

Sava Traders
Cash Flow Statement (extract) for the year ended 30 June 2019

	\$	\$
Cash Flows from Financing Activities		
Loan repayment	(60 000)	
Drawings	(73 000)	
Net cash flows from Financing Activities		(133 000)

Question 8c.

Sava Traders
Variance Report (extract) for the year ended 30 June 2019

Cash Flows From Operating Activities	Budgeted	Actual	Variance	Favourable/ Unfavourable
Advertising	25 000	18 000	7 000	Favourable
Wages	110 000	120 000	10 000	Unfavourable
Receipts from Debtors	980 000	945 500	34 500	Unfavourable

Question 8d.

Explanation: In a Cash Flow Statement, a favourable variance occurs when an actual inflow is greater than the budgeted inflow or when an actual outflow is less than the budgeted inflow. In the case of Advertising, the actual is \$7 000 below the budgeted figure. While this may be a favourable variance and represents a 'saving', it may also indicate a failure to spend the advertising budget and may adversely impact on sales and profit.