



2021 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.

Delivery costs on 12 January would be treated as a product cost as they can be directly traced to the cost of acquiring the GPA. \$3 ($\$120/40$ units) would be added to the purchase cost of the GPAs and not treated as a separate expense item. This would make the unit cost \$197 ($\$194 + \3). Delivery on 25 January would be treated as a period cost – that is, expensed separately as a delivery expense – as there is insufficient detail to identify the cost of delivery of the GPAs from cost of other items in the larger delivery. Imputing the \$3 per unit from 12 January may be appealing but costs per unit would vary depending on volume and to do so may be misleading.

Question 1b.

SportsFlash

General Journal

Date 2020	Details	Debit	Credit
31/12	Accounts Payable	660	
	Inventory		600
	GST Clearing		60

Question 1c.

FIFO method of cost assignment would assume the 20 units on hand were from the latest purchases:

12 @ \$200 from net purchases on 25 January	\$2 400	
8 @ \$197 from purchase on 12 January	<u>\$1 576</u>	
Total cost	\$3 976	
Total Cost to be assigned to the 20 GPAs at 31 January		\$3 976

Question 1d.

20 * 135

Total Cost to be assigned to the 20 GPAs at 31 January	\$2 700
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Question 1e.

Inventory is valued at the lower of cost or net realisable value (NRV) on an individual or group basis. NRV is the estimated selling price less any direct costs to sell the inventory. The cost of the carry case is a direct cost of selling and would be deducted from the selling price of \$150 to determine NRV.

Question 1f.

SportsFlash

General Journal

Date	Details	Debit	Credit
2020			
31/12	Inventory Writedown	1 276	
	Inventory		1 276

Question 1g.

It appears there are no checks or balances over the bookkeeper's work which provides an opportunity for fraud to occur. Effectively the bookkeeper has complete access to the business bank account via online banking (for EFT payments) and the writing of cheques with no oversight. There are also no processes to ensure that invoices paid match original orders and that the goods invoiced have been supplied.

Possible procedures to implement to improve internal control:

- before payment of an account the bookkeeper should assemble proof that the order / delivery docket / invoice all match to ensure payments are only made for received goods/services. This should be signed off by a manager/owner who should also be a counter-signatory to any cheques and whose authority/password is required before EFT payments are made.

- Separation of duties. If the size of the business permits, EFT payments should be prepared by the bookkeeper and processed by another employee/manager.
- Direct debits should be used for regular payments (Rent, Drawings, Insurance, Loan Repayments)
- A nominated list of authorised Payees (known suppliers list) can be provided to the bank with exceptional/new payees requiring separate authorization. Daily EFT payment limits should be changed to match approved payments total.
- Direct debits should be used for regular payments (Rent, Drawings, Insurance, Loan repayments).
- Passwords should be changed regularly.

Question 2a.

Any ethical issue relating to the inventory practices of the business, including:

- specialised skills, lack of training, sales demonstration issues, no career prospects, conflict of interest with staffing
- reduced cost for wages but perhaps higher costs for training
- people are committing to a job that's not going to progress
- licensing.

Question 2b.

- Price tags could be security coded – reduce inventory loss and assist computerised record-keeping.
- Inventory could be bought in smaller quantities to maintain fashion edge and reduce write downs.
- Inventory could be better displayed and complement other products.
- Inventory location in regard to location in the store and to other products is important.
- Security coding, staff training and buying inventory in smaller amounts all have costs attached to them.
- Individual mark-ups applied to different types or range of inventory – some items may be more profitable if sold at higher prices even if fewer items are sold.
- Inventory could be sold online.
- Improved inventory management leads to improved performance not only for profit but also liquidity.
- Improved inventory turnover and lower levels of inventory improve cash flow.

Students need to discuss the strategy and must consider both positives and negatives of the strategy.

Question 3a.

A Historical Cost

B Accumulated Depreciation charged so far

C Depreciation Expense per annum

Question 3b.

	Option 1 – Petrol delivery van	Option 2 – Electric delivery van
Depreciation expense (per year)	$((42\,000 + 2\,000) - 6\,000)/3$ \$12 667	$((56\,000 + 2\,000) - 11\,000)/3$ \$15 667
Total other van expenses (per year)	\$21 500	\$15 500

Question 4a.

$12\,000 \times .25 = 3\,000$	
$3\,000 / 12 \times 5 = 1\,250$	
Depreciation expense 30 June 2020	\$ 1 250

Question 4b.

Balance Sheet extract

	30 June 2021
Coffee Machine	12 000
Accumulated depreciation – Coffee Machine	(4 250) 7 750

Question 4c.

General Journal

Date	Details	Debit	Credit
2020			
31/12	Depreciation – Coffee Machine	1 500	
	Accumulated depreciation – Coffee Machine		1 500
31/12	Disposal of Coffee Machine	12 000	
	Coffee Machine		12 000

	Accumulated depreciation – Coffee Machine	2 750	
	Disposal of Coffee Machine		2 750
	Bank	4 000	
	Disposal of Coffee Machine		4 000
	Loss on disposal of Coffee Machine	5 250	
	Disposal of Coffee Machine		5 250
1 Dec	Bank	10 000	
	Loan – BLD Bank		10 000
1 Dec	Coffee Machine	14 000	
	GST Clearing	1 400	
	Bank		15 400

Question 5a.

Appliances

General Journal

Date	Details	Debit	Credit
2020			
30/6	Bad debts	5 500	
	Allowance for doubtful debts		5 500

Question 5b.

Allowance for Doubtful Debts

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Accounts Receivable	6 000		Balance	5 000
				Bad debts	5 500

Question 6a.

Cash received in June from account receivables.

Cash collected in June

From May	26400
From June	<u>16170</u>

Cash collected 42 570

Estimated cash received in June

\$42 570

Question 6b

Budgeted Cash Flow Statement for June 2021

Cash flows from Operating Activities

Cash sales	20 000	
GST receipts	2 000	
Accounts Receivables	42 570	
GST paid	-930	
Account Payables	-22 000	
Wages	-4 600	
Rent	-4 500	
Net cash flow from operating activities		<u>33 470</u>

Question 6c.

Income Statement for June 2021

Sales	50 000
Cost of Sales	<u>25 000</u>
Gross Profit	25 000

Less Other Expenses	
Discount expense	330
Rent	1 500
Wages	4 200
Depreciation - equipment	2 100
	<u>8 130</u>
Net Profit	16 870

Question 7a.

The business may need to improve expense control as a result of the change in net profit margin.

They may have experienced potentially declining sales and may need to advertise.

The business may need to seek out new suppliers.

Question 7b.

Gross Profit Margin could be used to identify the need to change mark-up by seeking new suppliers or changing selling price.

Return on investment (ROI) could provide the owner with information regarding their return on the capital they have invested in the business. This could allow the owner to determine whether they could consider increasing their investment.

Return on assets (ROA) could alert the owner to the need to update non-current assets which could contribute to additional revenue and potentially increased profit for the business.

Question 8

- Either of the following were correct:
 - Inventory turnover is faster when goods sit on the shelf for less time. If the business can increase sales and cost of sales from the same amount of inventory then cash will flow into the business at faster rate. Even if the goods are sold on credit then this should still lead in time to an improvement in net cash from operating activities.
 - Accounts receivable turnover is faster when net credit sales increase without the same increase in average accounts receivable. This means that cash is returning more quickly to the business and result in an improvement in net cash from operating activities.
- Better inventory management such as improved location, staff training, placement of inventory on shelves, complementary products and better advertising all may lead to quicker and increased sales.
- Discounts, frequent invoicing and other strategies help to maintain average Accounts receivable.
- This should still lead to an improvement in net cash from operating activities.

Question 9

Accrual Basis

The accrual basis assumption states that revenue should be recognised when it is earned. Although payment was received in January, the work was commenced and completed in February and should be recognised as revenue in February.

Question 10a.

Wood234

General Journal

Date	Details	Debit	Credit
2020			
May 31	Unearned sales revenue	82 500	
	Sales		75 000
	GST Clearing		7 500
	Cost of Sales	37 500	
	Inventory		37 500
	 Cleaning Expenses	1 100	
	Accrued cleaning expense		1 100
	 Advertising	15 000	
	Prepaid advertising		15 000

Question 10b.

Relevance or Faithful Representation

The owner should record depreciation as it allows for the accounting reports to provide information that is useful for decision making. By recognising the allocation of the cost of non-current assets over their useful lives, the users of the reports are able to make decisions based on the real-world economic events that occurred.

Question 10c.

Unearned sales are a current liability. That is a present obligation to transfer an economic obligation to transfer an economic resource as a result of past events within the next twelve months. Wood234 have received cash (a past event) to make a table (economic resource) in the future. The cash was received by April 1 and the work was completed in 30 days.

Question 11a.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
March 1	Balance	42 890	March 1	Accounts Payable	19 500
3	Sales/GST Clearing	13 200	1	Inventory/GST Clearing	8 800
12	Capital	2 000	1	Prepaid Rent/GST Clearing	10 560
30	Accounts Receivable	17 500	15	Advertising/GST Clearing	1 980
30	Loan – Bell Bank	20 000	31	Balance	54 750
		95 590			95 590
April 1	Balance	54 750			

GST Clearing

Date	Cross-reference	Amount		Date	Cross-reference	Amount
March 1	Bank	800		March 1	Balance	6 370
1	Accounts Payable	2 550		3	Bank	1 200
1	Bank	960		17	Accounts Receivable	3 260
15	Bank	180				
31	Balance	6 340				
		10 830				10 830
				April 1	Balance	6 340

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			31/3	Drawings	7 000

Drawings

Date	Cross-reference	Amount	Date	Cross-reference	Amount
31/3	Inventory	7 000			

Prepaid Rent Expense

Date	Cross-reference	Amount	Date	Cross-reference	Amount
March 1	Bank	9 600	March 31	Rent	800
			31	Balance	8 800
		9 600			9 600
April 1	Balance	8 800			

Advertising

Date	Cross-reference	Amount	Date	Cross-reference	Amount
March 15	Bank	1 800	March 31	P/L Summary	1 800
		1 800			1 800

Question 11b.

P/L Summary

Date	Cross-reference	Amount	Date	Cross-reference	Amount
March 31	Expenses	21 800	March 31	Revenues	44 600
31	Capital	22 800			
		44 600			44 600

Capital

Date	Cross-reference	Amount	Date	Cross-reference	Amount
March 31	Drawings	7 000	March 1	Balance	46 300
			12	Bank	2 000
31	Balance	64 100	31	P/L Summary	22 800
		71 100			71 100
			April 1	Balance	64 100

Question 11c.

Revenue and expense accounts are temporary Owner Equity accounts used to measure increases in OE excluding capital contributions (revenue) and decreases in OE excluding owner drawings expenses) for a given period. They are closed at the end of each period as Profit is determined on a periodic basis (maximum of one year) under the Period Assumption.

This requires resetting expense and revenue balances to zero prior to commencing the next period. To achieve this, these accounts are closed / transferred to the P+L Summary account, which then provides a ledger record of the profit for the period. The P + L Summary account is then closed by transferring the balance to the permanent OE account (Capital).