



2022 VCE Accounting (NHT) external assessment 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.

Inventory Card

Item: Ruby candle

Cost Assignment Method: FIFO

Supplier: WixAway

		IN			OUT			BALANCE		
Date 2022	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Mar. 1	Inv 324	25	15	375				25	15	375
4	Inv. 123				14	15	210	11	15	165
8	Inv. 544	30	16	480				11	15	
								30	16	645
10	Rec 68				11	15				
					4	16	229	26	16	416
13	Memo 6				5	16	80	21	16	336
19	Inv 655	40	14	560				21	16	
								40	14	896
23	CrN16	6	16	96				27	16	
								40	14	992
31	Memo 7	2	16	32				29	16	464
								40	14	1 008

Question 1b.

The delivery cost would be included as part of the unit cost of inventory purchased.

It is a product cost, as it is part of the cost of bringing the inventory into a location ready for sale and can be directly associated with each unit (\$40 for 40 units = \$1 per unit). The cost is added to the invoiced cost of \$13 per unit and is recorded at the cost price of \$14 for each ruby candle.

Question 2a.

The source document is a Credit Note.

Question 2b.

General Journal

Date 2022	Details	Debit \$	Credit \$
31/1	Inventory Write-Down	2 000	
	Inventory		2 000

Question 2c.

Inventory is valued at lower of cost and net realisable value to ensure the asset is not overvalued in the Balance Sheet.

Net realisable value is only used when it is estimated that an inventory item on hand at the end of a period will not realise its cost price when it is finally sold (for example, if it is damaged or obsolete).

It brings forward the recognition of the potential loss to the current period when the loss is identified to comply with the accrual basis assumption.

Valuing other inventory on hand at cost price ensures that profit will only be recognised in the period when inventory is sold.

Question 2d.

General Ledger

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jan 1	Balance	46 000	Jan 31	Accounts Payable	7 000
Jan 31	Accounts Payable	260 000		Cost of Sales	250 000
	Cost of Sales	6 000		Inventory Write-Down	2 000
				Balance	53 000
		312 000			312 000
Feb 1	Balance	53 000			

Question 2e.

Electrix Warehouse

Income Statement (extract) for the month ended 31 January 2022

	\$	\$
Revenue		
Sales	500 000	
Less Sales Returns	12 000	488 000
Less Cost of Sales		244 000
Gross Profit		244 000
Less Inventory Write-Down (c)		2 000
Adjusted Gross Profit		242 000

Question 3a.

Existing Sales and Cost of Sales

	Working Space	Amount
Sales	$200 * 7 * \$4 * 52$	\$291 200
Cost of Sales	$200 * 7 * (0.42 + 0.09) * 52$	\$37 128
Gross Profit		\$254 072

Assuming recyclable cups and lids and fair-trade coffee are used and there is a 10% increase in sales

	Working space	Amount
Sales	$220 * 7 * \$4 * 52$	\$320 320
Cost of Sales	$220 * 7 * 0.62 * 52$	\$49 650
Gross Profit		\$270 670

Assuming recyclable cups and lids and fair-trade coffee are used but there is no increase in sales

	Working space	Amount
Sales	$200 * 7 * \$4 * 52$	\$291 200
Cost of Sales	$200 * 7 * 0.62 * 52$	\$45 136
Gross Profit		\$246 064

Question 3b.

Ethical business issues revolve around whether business decisions should be based on broader environmental or social aspects or just on potential financial implications. The single-use cups are cheaper, but they create litter and disposal issues both at the station and when considering waste and recycling. The recyclable cups are more expensive, so may reduce profit, and are made overseas, possibly at the expense of local jobs.

The fair-trade coffee beans are more expensive, which increases costs and potentially reduces profits, but could make a difference to the working conditions of workers where they are grown and processed.

The offer of a personal commission to the accountant would conflict with the accountant's duty to act with integrity. Any such commission should be disclosed and directed to the business.

When assessing this question, the following marking scale was used.

Marks	Criteria
5–6	Detailed understanding of financial and ethical implications of decisions made by a business owner Comprehensive discussion of the positive and negative implications of decisions made by a business owner Accurate use of correct accounting terminology and discussion of the implications on the impact on the performance of the business
3–4	Demonstrated an understanding of financial and ethical implications of decisions made by a business owner. Referred to both positive and negative implications of decisions made by a business owner General use of correct accounting terminology and reference to the implications on the impact on the performance of the business
1–2	Basic, if any, reference to ethical and/or financial considerations Identifies at least one ethical issue Identifies at last one financial issue
0	Displays no knowledge of ethical and financial issues

Question 4a.

General Journal

Date 2022	Details	Debit \$	Credit \$
31/3	Allowance for Doubtful Debts	6 000	
	GST Clearing	600	
	Accounts Receivable		6 600
31/3	Bad Debts	10 000	
	Allowance for Doubtful Debts		10 000

Question 4b.

VIMT Furniture

Balance Sheet (extract) as at 31 March 2022

	\$	\$
Current Assets		
Accounts Receivable	125 400	
Less Allowance for Doubtful Debts	12 000	113 400

Question 4c.

Benefit: Creating an allowance for doubtful debts ensures the Balance Sheet reports the expected realisable amount of Accounts Receivable. This is considered to enhance relevance as it improves decision-making by recognising that not all Accounts Receivable are expected to be collected. This method also recognises Bad Debts in the same period as the Credit Sales revenue from which they arose. This results in profit better reflecting the performance of the business for that period, which again provides more relevant information to users.

Limitation: The main limitation of this method is that it relies on estimates to be made of the likely percentage of Net Credit Sales that will not be collected. To some extent, this makes the reports less reliable as there is no supporting documentary evidence. This suggests it conflicts with the qualitative characteristics of faithful representation and verifiability as it is not neutral; independent observers may not come to a consensus that the bad debts were accurately recorded.

Question 5a.

General Journal

Date 2022	Details	Debit \$	Credit \$
31/3	Bank	48 000	
	Loan – Nifty Finance		48 000
	Vehicle	500 000	
	GST Clearing	5 000	
	Bank		55 000
31/3	Vehicle	7 000	
	Bank		7 000
31/3	Bank	48 000	
	Loan – Nifty Finance		48 000
31/3	Vehicle	43 000	
	GST Clearing	5 000	
	Bank		48 000

Question 5b.

Jaimie's Stationery

Cash Flow Statement for the month ending 31 March 2022

Cash Flow from Operating Activities		
Cash Sales	36 000	
Accounts Receivable	59 000	
GST received	4 900	99 900
Accounts Payable	(42 000)	
Wages paid	(26 000)	
Rent paid	(6000)	
GST paid	(5600)	(79 600)
Net Cash from Operating Activities		20 300
Cash Flow from Investing Activities		
Proceeds – sale of vehicle	13 000	
Vehicle	(50 000)	
Net Cash from Investing Activities		(37 000)
Cash Flow from Financing Activities		
Loan received	48 000	
Drawings	(9 000)	39 000
Net Cash from Financing Activities		39 000
Net Increase in Cash Position		22 300
Bank Balance at 1st March 2022		(2 300)
Bank Balance at 31st March 2022		20 000

Question 5c.

Net Cash and Net Profit are different concepts. Net Cash is determined by subtracting cash payments from cash receipts, while Net Profit is calculated under accrual accounting by subtracting expenses incurred from revenues earned. A loss can be generated by expenses that do not involve cash outflows and Net Cash will increase whenever total receipts exceed total payments and may occur irrespective of a profit or loss being reported.

- Cash proceeds of \$13 000 from the disposal of the vehicle increased the cash balance, while the loss on disposal of \$8 000 has contributed to the loss.
- Credit Sales for March were \$54 000 and contributed to the loss; however, collections from Accounts Receivable were \$59 000, which increased the bank balance.
- Rent expense was \$15 000 and contributed to the loss; however, only \$6 000 cash was paid in the period due to the prepayments made in previous periods, so the cash effect was much less.
- Wages expense of \$27 000 was greater than wages paid of \$26 000. No accrued wages at the start of the period.

Question 5d.

The receivables and payables turnover trends will both have an adverse effect on cash flow:

- receivables are taking longer to pay, while the business is paying payables faster
- credit terms are n/30, so there is no reason to be reducing average payment times to below 30 days.

Cash is being paid out more quickly than necessary at a time when cash is taking longer to collect from receivables. The receivables turnover should also be assessed against industry averages, and it could be considered whether the change from 38 days to 43 days has come from a deliberate loosening of credit, which may have positively impacted revenue by attracting more customers.

Inventory turnover has fallen from 85 to 80 days, which is considered a favourable trend. It results in cash being held in inventory for a shorter period, which would normally provide a boost to cash flow:

- If it was caused by increased sales while holding the same level of inventory, it is a positive result.
- If it was caused by decreasing inventory levels and possibly reducing the range and inventory mix, it may impact sales volume and ultimately adversely affect future cash flows.

Question 6

The additional borrowed funds have not been utilised any more efficiently than in 2020. The Return on Assets shows that every dollar of assets is still generating the same amount of profit. For every dollar of assets the business has at its disposal, it is able to generate 14 cents of Net Profit, which is similar to the industry average of 15 cents.

The Return on Investment shows the return to the owner for every dollar of capital invested. In this case, every dollar invested by the owner is generating 21% (or 21 cents) of profit, up from 15 cents in 2020 and now exceeding the industry average of 18 cents. This means that the owner has benefited from the borrowing as there is additional profit accruing to them.

The debt ratio has risen significantly by 59%, and is now well above industry average. The debt ratio shows the proportion of business assets contributed by external parties (that is, liabilities). It shows that more than a third of business assets have been provided by external parties in 2021, compared to less than a quarter in 2020 and an industry average of 20%.

High debt levels are seen to increase financial risk; interest payments and repayment of principal tighten future cash flow planning, as these payments must be made irrespective of the prevailing economic climate.

If the debt ratio exceeds acceptable benchmarks, banks and other lenders can refuse to provide further lending or even call in existing loans.

Overall, the borrowing has led to an increase in the return to the owner but at a significant increase in financial risk.

When assessing this question, the following marking scale was used.

Marks	Criteria
5–6	Detailed understanding of financial indicators The effect of the additional borrowing on business performance and financial indicators Both the positive and negative effects of the borrowed funds on the financial indicators Reference to all indicators and information provided Accurate use of accounting terminology and discussion of the implications on the impact on the performance of the business
3–4	Made the connections between the indicators provide Demonstrated an understanding of financial implications of decisions made by a business owner Referred to both positive and negative implications of decisions made by a business owner General use of correct accounting terminology and reference to the implications on the impact on the performance of the business
1–2	Basic reference to trends in financial indicators or the effects of borrowing on business performance
0	Displays no knowledge of financial indicators

Question 7a.

Line A: Carrying Value

Line B: Accumulated Depreciation

Line C: Depreciation Expense

Question 7b.

General Journal

Date 2022	Details	Debit \$	Credit \$
31/7	Depreciation – Office Furniture	300	
	Accumulated Depreciation – Office Furniture		300
31/7	Disposal of Office Furniture	30 000	
	Office Furniture		30 000
31/7	Accumulated Depreciation – Office Furniture	21 900	
	Disposal of Office Furniture		21 900
31/7	Bank	3 850	
	Disposal of Office Furniture		3 500
	GST Clearing		350
31/7	Loss on Disposal of Office Furniture	4 600	
	Disposal of Office Furniture		4 600
31/7	Office Furniture	23 000	
	GST Clearing	2 300	
	Bank		25 300

Question 7c.

The non-current asset value will be reduced because the accumulated depreciation of the non-current asset will increase, which will reduce the carrying value. The Owner's Equity will decrease as a result of the increase in depreciation expense, which will decrease net profit and capital.

Question 7d.

Accounting Assumption. Going Concern

Financial reports are prepared on the assumption that the business will continue to operate into the future. It is assumed the business will not be wound up but will continue its activities. This means that the office furniture should be depreciated over its estimated useful life.

Question 8

Date 2022	Details	Debit \$	Credit \$
14/3	Bank	4 000	
	Unearned Sales Revenue		4 000
15/5	Bank	5 900	
	Unearned Sales Revenue	4 000	
	Sales		9 000
	GST Clearing		900
	Cost of Sales	4 500	
	Inventory		4 500

Question 9a.

	Budget (\$)	Actual (\$)	Variance (\$)	Fav/Unfav
Net Sales	131 000	122 000	9 000 ▼	Unfav
Cost of Sales	50 400	50 300	100 ▼	Fav
Gross Profit	80 600	71 700	8 900 ▼	Unfav
Less Expenses				
Advertising	8 000	5 000	3 000 ▼	Fav

Question 9b.

There has been an unfavourable variance in net sales of \$9,000, although there is only \$100 decrease in Cost of Sales. Reasons for this could include inventory costing more with virtually no increase in selling prices leading to a decline in gross profit.

The favourable variance advertising of \$3,000 resulted in a reduction in expenses and has a positive increase in net profit. Reasons could include better deals or deliberate reduction in the amount of advertising, or moving to lower-cost options such as online over printed materials. The decrease in advertising could also be due to a deliberate decision to reduce advertising spend, which could have resulted in a decrease in sales.