

VCE Accounting Unit 4: Nano Exam 10. Marks = 32. Time = 32 minutes.

Lisa manages **LightBeam**, a business that trades in lighting fittings for cash and on credit. The business uses control accounts, the perpetual stock system using the FIFO method of cost assignment and the accrual accounting system.

The following information is provided at 30/5/29:

Stock	Quantity	Unit Cost \$
Director's Desk Lamps	30	40

Memo #88. The Director's Desk Lamps are not selling well and are shop soiled. Lisa decides to sell them for \$38.50 each, including \$3.50 GST and a special stand to display them will cost \$297 including \$27 GST. (This display stand will only be used for this sale).

1.1 Calculate the net realisable value for the Director's Desk Lamps in total and per unit. 3 marks
30 units X \$35 per unit = \$1050. \$1050 less \$270 = \$780. \$780/30 units = \$26 per unit.

1.2 Define net realisable value (NRV). 1 mark
Estimated selling price less estimated costs to sell/market/distribute the stock.

1.3 Explain when the NRV is used instead of historical cost when valuing stock? In your answer **refer** to an appropriate accounting principle. 3 marks
NRV is only used to value stock where NRV is less than the historical cost of the stock. This is consistent with the accounting principle of conservatism which aims to provide stakeholders with the lowest/most relevant profit (calculation of profit includes stock write down which reduces profit) and asset valuations (stock is valued at the lower of cost and NRV which reduces the value of reported stock control.

1.4 Record the impact of the following stock card:

This is the stock write down.

STOCK CARD: Director's Desk Lamps. FIFO										
2029		IN			OUT			BALANCE		
Date	Details	QTY.	COST	VALUE	QTY.	COST	VALUE	QTY.	COST	VALUE
30/5	Balance							30	40	1200
	Memo 88				30	14	420	30	26	780

Stock is now valued at the lower of cost and NRV.

1.5 Record Memo #88 in the General Journal provided:

General Journal (GJ) extract					
		General Ledger		Subsidiary Ledger	
Date	Details	Dr. \$	Cr. \$	Dr. \$	Cr. \$
30/5/29	Stock write down	420			
	Stock control		420		
	Memo #88. Director's desk lamps.				

1.6 Excluding damage, **explain** other possible causes of a business valuing a stock line at less than its cost. 2 marks
Change of consumer tastes and preferences, obsolescence, deliberate marketing campaign to attract customers (loss leader).

1.7 Identify the impact of Memo #88 on the accounting equation.

3 marks

Assets	Liabilities	Owners Equities
Decrease stock control \$420.	No impact	Decrease \$420 due to profit impact of stock write down.

1.8 Which qualitative characteristic is compromised by valuing stock at the lower of cost and net realisable value and which qualitative characteristic prevails in this situation?

2 marks

'Reliability' is compromised since net realisable value, NRV, is an estimation which will impact on the calculation of profit and the valuation of assets and owners equity.

'Relevance' prevails since stakeholders are being provided with more relevant information in the reports including a more conservative profit and stock control value.

Income Statement for June 2030		
Revenue	\$	\$
Sales		40000
Less cost of goods sold		
Cost of sales		10000
Gross profit		30000

Memo #130
Date 30/6/30
The LED spotlights have been superseded.
Change selling price to \$22 inc. \$2 GST.
Commission to salesperson on each sale 10% on sell price excluding GST.

1.9 Record the impact of memo #130 in the following stock card:

3 marks

STOCK CARD: LED Spotlights. FIFO										
2030		IN			OUT			BALANCE		
Date	Details	QTY.	COST	VALUE	QTY.	COST	VALUE	QTY.	COST	VALUE
30/6	Balance							4	20	80
								16	30	480
30/6	Memo 130				4	2	8			
					16	12	192	20	18	360

1.10 Redraft the Income Statement below for June 2030 to adjusted gross profit which includes the impact of memo #130 and #131.

5 marks

Income Statement for June 2030		
Revenue	\$	\$
Sales	40000	
Less sales returns	3000	37000
Less cost of goods sold		
Cost of sales		9250
Gross profit		27750
Less stock write down		200
Adjusted gross profit		27550

Memo #131
Date 30/6/30
Stock returned by debtor Janus LTD.
\$3300 inc. \$300 GST. Mark-up 300%.

Working space if required:

Cost of sales	
Stock cont. 10000	Stock cont. 750
9250	

1.11 Record the impact of memo #131 in the General Journal. No narrations.

5 marks

General Journal (GJ) extract					
Date	Details	General Ledger		Subsidiary Ledger	
		Dr. \$	Cr. \$	Dr. \$	Cr. \$
30/6/30	Sales returns	3000			
	GST clearing	300			
	Stock control	750			
	Debtors control		3300		
	Janus LTD				3300
	Cost of sales		750		