2018 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.

Cash Receipts Journal (summary)

Date 2018	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
31 May	Totals to date	–	22 050	250	12 000	2 000	3000	7 000	300

Sales Journal (summary)

Date 2018	Debtor	Invoice No.	Cost of Sales	Sales	GST	Debtors Control
31 May	Totals to date	–	15 000	22 500	2 250	24 750

Question 1b.

Wang's Emporium
General Journal

Date 2018	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 May	Creditors Control	1 320			
	Simsong Electrics			1 320	
	GST Clearing		120		
	Stock Control		1 200		
31 May	Stock Write-down	660			
	Stock Control		660		

Question 1c.

Stock Control

Date 2018	Cross-reference	Amount	Date 2018	Cross-reference	Amount
1 May	Balance	31 500	31 May	Creditors Control	1 200
31 May	Bank	4 000		Stock Write-down	660
	Creditors Control	9 000		Cost of Sales	2 000
				Cost of Sales	15 000

Creditors Control

Date 2018	Cross-reference	Amount	Date 2018	Cross-reference	Amount
31 May	Bank	7 800	1 May	Balance	13 200
	Stock Control/GST Clearing	1 320	31 May	Stock Control/GST Clearing	9 900

Question 1d.

Qualitative characteristic: Relevance

Explanation: The expense, Stock Write-down, needs to be recorded now to ensure that Gross Profit and Net Profit are not overstated. The loss in the value of the stock has occurred in the current reporting period and therefore it should be offset against the revenue earned in this same period of time. These digital radios are no longer worth what the business originally paid for them. This will also ensure that Stock Control and Owner’s Equity are not overstated in the Balance Sheet as well.

Question 2a.

Transaction: Purchase Return of 20 bags to the supplier

Question 2b.

Stock Card

Product: Milano bag										**Cost Assignment Method: FIFO**
Date 2018	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
June 1	Balance							195	120	23 400
8	Rec. 158				80	120	9 600	115	120	13 800
14	Chq. 67	5	120	600				120	120	14 400
22	CrN. 521				20	120	2 400	100	120	12 000
28	Inv. V465	100	132	13 200				100	120	12 000
								100	132	13 200
29	Rec. 298–427				100	120	12 000			
					30	132	3 960	70	132	9 240
30	Memo 125	3	132	396				73	132	9 636

Question 2c.

Aldotto
General Journal

Date 2018	**Details**	**General Ledger**		**Subsidiary Ledger**	
		Debit	**Credit**	**Debit**	**Credit**
30 June	Stock Control	396			
	Stock Gain		396		

Question 2d.

Either:

- **Accounting principle:** conservatism
  Explanation: Stock is not valued at the selling price based on the accounting principle of conservatism as there is still uncertainty that the stock items will be sold. Conservatism demands that revenues or gains should only be reported when it is certain that revenue has been earned. That is, when the sale actually occurs. Stock is initially recorded at cost price, as this value is verifiable with business documents and the goods have not yet been sold.

- **Accounting principle:** historical cost
  Explanation: Stock should be valued at the price it was purchased at in order to follow the historical cost principle. Stock should never be valued at the selling price because selling prices can change and the goods have not yet been sold. Historical cost satisfies reliability as the cost price can be verified by business documents, whereas selling prices have not yet been earned.

Question 3a.

ChocBloks
General Journal

Date 2018	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
1 June	Fittings	4 800			
	GST Clearing	480			
	Sundry Creditor – ShopFit		5 280		
30 June	Depreciation of Fittings	100			
	Accumulated Dep'n of Fittings		100		
30 June	Rent Expense	400			
	Prepaid Rent Expense		400		

Question 3b.

Bank (8000 + 8000 + 800) – (1320 + 3550 + 355 + 1000) = 16 800 – 6 255 = 10 545

GST Clearing 800 – (120 + 480 + 355) = 155 dr

Net profit = 8000 – (2300 + 100 + 400) = 8000 – 2 800 = 5 200

ChocBloks
Balance Sheet as at 30 June 2018

	$	$		$	$
Current Assets			**Current Liabilities**		
Cash at Bank	10 575		Sundry Creditor – ShopFit		4 280
Stock Control	1 250				
Prepaid Rent Expense	800		**Non-Current Liabilities**		
GST Clearing	155	12 780			
			Owner's Equity		
Non-Current Assets			Capital	8 000	
Fittings	4 800		Plus Profit	5 200	13 200
Less Acc. Dep'n Fittings	(100)	4 700			
Total Assets		**17 480**	**Total Equities**		**17 480**

Question 4a.

Accounting principle: reporting period

Explanation: The cost of the packing machine needs to be broken down and spread out over the life of the asset and expensed against the revenue that the machine helps to generate. In this case it is predicted that the packing machine will be used evenly throughout its useful life so the straight line method of depreciation is used because this allocated the cost of the machine evenly over its lifetime – in this case $6000 per year.

Question 4b.

Explanation: Carrying value is made up of two components. The first component is the amount of depreciation yet to be written off as an expense during the remaining useful life of the asset.
The second component is the original estimate of the asset's residual value, which will not be depreciated during the useful life of the asset.

Question 4c.

Disposal of Machine

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
July 1	Packing Machine	40 000	July 1	Acc. Dep'n of Packing Machine	30 000
				Sundry Creditor – XT Packers	8 500
				Loss on Disposal of Packing Machine	1 500
		40 000			40 000

Question 5a.

Cash Flow Statement: The deposit is an operating inflow that will increase the net cash flow from operations.

Income Statement: No effect, as the revenue has not yet been earned.

Balance Sheet: The Cash at Bank will be $500 higher, as the cash has already been received. The Current Liabilities (Prepaid Sales Revenue) will be $500 higher, because the business has a present obligation to provide goods to the customer.

Question 5b.

JBSport
Sales Journal

Date 2018	Debtor	Invoice No.	Cost of sales	Sales	GST	Debtors Control
July 16	Bay FC	2134	2 000	2 500	300	2 800

JB Sport
General Journal

Date	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
July 31	Prepaid Sales Revenue	500			
	Sales Revenue		500		

Question 5c.

JB Sport
General Journal

Date 2018	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
July 31	Profit & Loss Summary	194 000			
	Depreciation of Fittings		4 000		
	Cost of Sales		109 000		
	Wages		68 000		
	Rent Expense		13 000		

Question 5d.

Profit and Loss Summary

Date 2018	Cross-reference	Amount	Date 2018	Cross-reference	Amount
July 31	Expenses	194 000	July 31	Revenue	287 000
31	Capital	93 000			
		287 000			287 000

Capital

Date 2018	Cross-reference	Amount	Date 2018	Cross-reference	Amount
July 31	Drawings	38 000	July 1	Balance	350 000
			July 31	P&L Summary	93 000

Question 5e.

Explanation

Closing all the revenues and expenses allows for the calculation of net profit or loss for the reporting period. Closing entries also return revenue and expense accounts to zero balances in preparation for the next reporting period.

Question 6a.

This is a sample response

There have been healthy increases in sales, which may lead to an improved profit. However both the gross margin and the net margins have declined. Gross margin has declined from 54% to 50% and the trend is generally considered unfavourable. This is either caused by a decrease in selling price and/or an increase in cost price. This may have been due to a marketing strategy to boost sales or a failure/unwillingness to cover increased supplier costs due to competition. Lower prices will often lead to an increase in sales. Therefore, sales have increased but the average mark-up on these sales may have decreased over the year. This would explain the decrease in the gross profit margin.

Expense control appears to be a larger problem. Expenses have increased markedly from 24% of sales to 30%, which given the increase in sales indicates a significant increase in the dollar value of total expenses. This could be explained by an increase in advertising, which could have led to the increase in sales. It could also be caused by higher wage costs (more staff or longer hours) or higher utility costs such as electricity charges. Net Profit has actually declined over the 3 years from $87 000 (30% x $290 000) in 2015 to $62 000 (20% x $310 000) in 2017 despite increased sales. This means that if the increase in sales has occurred by decreasing prices and boosting advertising/wages it has not been effective.

Question 6b.

Example 1
Website activity to measure the interest in their business and compare this to the online activity recorded in the previous reporting period

Example 2
Customer satisfaction survey to gain feedback about customer experiences when shopping with the business and look for areas where improvement may be possible

Question 7a.

Working space 137 000 + 3 000 =140 000 – 4 800 =135 200	
Budgeted cash to be paid for wages	**$ 135 200**

Question 7b.

Qualitative characteristic: relevance

Explanation: While $135 200 is expected to be paid for wages, this is not the amount that is expected to be expensed during the reporting period. The amount paid does not take into account any cash owed for wages at the end of the reporting period. Wages paid and wages expense are two different concepts. Wages paid would be relevant to the Cash Flow Statement, whereas wages incurred would be reported in the Income Statement.

Question 7c.

Vesco Taps
Budgeted Cash Flow Statement (extract) for the year ending 31 December 2018

Estimated Cash Flows from Investing Activities		
Sale of Equipment	6 200	
Purchase of Equipment	(107 000)	
Estimated Net cash flow from Investing Activities		(100 800)
Estimated Cash Flows from Financing Activities		
Loan Repayments	(56 000)	
Drawings	(95 000)	
Estimated Net Cash Flows from Financing Activities		(151 000)

Question 8a.

Revenue type 1: Profit on Disposal of a Non-Current Asset
Revenue type 2: Interest Revenue

Other possible responses included Commission Revenue and Rent Revenue.

Question 8b.

Comments could have included, but were not limited to:

- The Cash Flow Statement is reporting negative operating activities.
- Debtors Turnover is slower and is well outside the credit terms.
- Creditors Turnover is within the credit terms but creates issues if accounts are being paid too quickly.
- Stock Turnover is slightly faster but is still over 2 months.
- The cash cycle is is slower (120 days to 122 days), whilst creditors turnover is faster
- Bad Debts is 5% of sales, which needs to be reviewed as it will have a negative effect on liquidity if it is not checked and controlled.

Question 8c.
Strategy 1

Prompt invoicing to debtors and regular reminders once accounts are overdue would help the business in collecting cash at a faster rate. Once the cash is collected the business would be in a better position to meet its own commitments due to having more liquid funds available.

Strategy 2

Increasing the speed of stock turnover by monitoring fast and slow moving lines of stock and adjusting re-order levels to ensure smaller amounts of slower moving stock are ordered by the business would keep more cash in the business, thus improving liquidity.