COMMERCE PRESENTATIONS AND PUBLICATIONS

# ACCOUNTING ASSESSMENT TASK

# 2021

# Unit 4 Outcome 1

## Extension of recording and reporting

# SUGGESTED ANSWERS/SOLUTIONS

## Note to teachers and students

All completed assessment material (including question booklets) **should be collected by the teacher** and returned to students upon the completion of Unit 4

**Question 1 – Helen's Hats (4 marks)**

**Record invoice 774 in the General Journal of Helen's Hats.**

**A narration is not required.**

**General Journal**

| Date | Details | Debit | Credit |
|---|---|---|---|
| 19/06 | Credit Sales | | 4 500 |
| | GST Clearing | | 450 |
| | Unearned Sales Revenue | 500 | |
| | Accounts Receivable – Sandy Sports | 4 450 | |
| | Cost of Sales | 3 000 | |
| | Inventory | | 3 000 |

**1 mark –** Credit Sales and GST Clearing entries

**1 mark –** Unearned Sales Revenue and Accounts Receivable – Sandy Sports entries

**1 mark –** Cost of Sales

**1 mark –** Inventory

**Question 2 – Ellen's Electronics (3 marks)**

**Complete the Interest Revenue account in the General Ledger as at 30 June 2021.**

**Interest Revenue**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| 30/06 | Profit and Loss Summary | 450 | 30/04 | Bank | 150 |
| | | | 30/06 | Accrued Interest Revenue | 300 |
| | | 450 | | | 450 |

**1 mark –** per entry

**1 mark –** closing account to Profit and Loss Summary

**Question 3 – Joel's Jackets (7 marks)**

**a. Complete the Allowance for Doubtful Debts account in the General Ledger as at 30 June 2021.**

**4 marks**

**Allowance for Doubtful Debts**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| 30/06 | Accounts Receivable | 3 500 | 01/01 | Balance | 5 500 |
| | Balance | 9 600 | 30/06 | Bad debts | 7 600 |
| | | 13 100 | | | 13 100 |
| | | | 01/07 | Balance | 9 600 |

**1 mark –** per entry

**1 mark –** balancing account

**b. Prepare the General Journal entry to record the balance day adjustment for Rent as at 30 June 2021.**

**A narration is not required.**

**2 marks**

**General Journal**

| Date | Details | Debit | Credit |
|---|---|---|---|
| 30/06 | Rent Expense | 19 800 | |
| | Prepaid Rent Expense | | 19 800 |

**1 mark –** per line entry

**c. Calculate the wages paid to employees for the period ended 30 June 2021.**

**1 mark**

| | |
|---|---|
| Wages amount in Pre-Adjustment Trial Balance | $28 290 |
| Plus: Accrued Wages as at 31 December 2020 | $4 000 |
| | **$32 290** |

**Question 4 – Daniel's Desks (8 marks)**

**a. Record the receipt of the loan from MNC Bank in the General Journal on 1 January 2021.**

**A narration is not required.**

**1 mark**

**General Journal**

| Date | Details | Debit | Credit |
|---|---|---|---|
| 01/01 | Bank | 30 000 | |
| | Loan – MNC Bank | | 30 000 |

**b. Calculate the cost price of the Van to be reported on the Balance Sheet of Daniel's Desks as at 1 January 2021.**

**1 mark**

| | |
|---|---|
| 'Tavistock' Van | $23 900 |
| Plus: Signwriting | $1 700 |
| | **$25 600** |

**c. Referring to your answer in part b., explain your treatment of the Annual Road Registration in determining the cost price of the Van.**

**2 marks**

Even though the Annual Road Registration is a cost incurred in getting the Van into a condition or location ready for use to start earning revenue, **(1 mark)** it was not included in determining the cost price of the Van as it will not provide a benefit for the life of the Van. **(1 mark)**

**d. Explain how Daniel should determine the appropriate method of depreciation for the Van.**

**Refer to alternative methods of depreciation in your answer.**

**4 marks**

Daniel should seek to match depreciation expense with the revenue earning pattern of the Van. If the Van is expected to generate the same amount of revenue each period, **(1 mark)** the straight line method should be adopted as it allocates the same amount of cost each period. **(1 mark)**

However, if the Van is expected to be more productive in its earlier years and therefore generate more revenue in those periods, **(1 mark)** the reducing balance method should be adopted. The reducing balance method allocates more cost in the earlier years and less in the Van's later years, when it is less productive and therefore matches the Van's revenue earning pattern with the allocation of the expense. **(1 mark)**

**Question 5 – Siobhan's Shoes (11 marks)**

**a. Calculate the depreciation expense for the quarter ended 30 June 2021.**

**3 marks**

Existing Shelving

$8 000 x 9% = $720 per year

$$\frac{\$720 \text{ per year}}{12 \text{ months}} = \$60 \text{ per month}$$

$60 x 3 (April / May / June) = $180

New Shelving

$12 000 x 9% = $1 080 per year

$$\frac{\$1\,080 \text{ per year}}{12 \text{ months}} = \$90 \text{ per month}$$

$90 x 2 (May / June) = $180

**$360**

**1 mark –** calculation of annual depreciation amounts

**1 mark –** calculation of monthly amounts

**1 mark –** correct allocation of ownership months

**b. Explain how depreciation expense satisfies the definition of the accounting expense element.**

**2 marks**

Depreciation expense satisfies the definition of the accounting expense element as it decreases Assets, through an increase in accumulated depreciation **(1 mark)** and decreases Owner's Equity, through a decrease in Net Profit. **(1 mark)**

**c. Referring to two qualitative characteristics, discuss the inclusion of depreciation expense in the Income Statement of Siobhan's Shoes for the quarter ended 30 June 2021.**

**4 marks**

The qualitative characteristic of relevance requires all information capable of making a difference to the decisions made by users to be included in accounting reports. **(1 mark)** Depreciation represents an expense incurred (consumption of future economic benefits) that is required to be reported in the Income Statement in order to determine an accurate profit for the period. **(1 mark)**

However, the qualitative characteristic of verifiability requires that the information reported will mean that all users will reach the same conclusion. An event will be faithfully represented when it can be verified by source documents and checked through the audit process. **(1 mark)** Depreciation expense each year cannot be verified by documentary evidence as the process of calculating and reporting depreciation relies on estimating the residual value and useful life. **(1 mark)**

**d. Assuming no further Shelving was purchased or disposed, show how the Shelving would be reported on the Balance Sheet of Siobhan's Shoes as at 30 June 2022.**

**2 marks**

**Siobhan's Shoes**
**Balance Sheet (extract) as at 30 June 2022**

| | **$** | **$** |
|---|---|---|
| **Non-Current Assets** | | |
| Shelving | 20 000 | |
| Less: Accumulated Depreciation | 4 500 | 15 500 |

**1 mark –** Shelving

**1 mark –** Accumulated Depreciation and carrying value amounts

**Question 6 – Kevin's Kettles (13 marks)**

**a. Prepare all the necessary General Journal entries required on 30 June 2021 in relation to the Vans.**

**Closing entries and narrations are not required.**

**11 marks**

**General Journal**

| Date | Details | Debit | Credit |
|---|---|---|---|
| 30/06 | Depreciation – Van | 7 680 | |
| | Accumulated Depreciation - Van | | 7 680 |
| | Disposal of Van | 40 000 | |
| | Van | | 40 000 |
| | Accumulated Depreciation – Van | 28 480 | |
| | Disposal of Van | | 28 480 |
| | Van | 11 000 | |
| | Disposal of Van | | 11 000 |
| | Loss on Disposal of Van | 520 | |
| | Disposal of Van | | 520 |
| | Van | 25 000 | |
| | GST Clearing | 3 600 | |
| | Bank | | 28 600 |

**1 mark –** Disposal of Van and Van $40 000 entries

**1 mark –** Van $25 000 debit and GST Clearing $3 600 debit entries

**1 mark –** per line entry

**b. Referring to your answer in part a., explain why a profit or loss on the trade-in of the Van occurred.**

**2 marks**

A loss on the trade-in of the Van occurred as the Van was under-depreciated **(1 mark)** due to over-estimating the Van's useful life or residual value. **(1 mark)**

**Question 7 – Marcia's Merchandise (4 marks)**

**Analyse Marcia's Merchandise's management of their assets in 2021 compared to 2020 and explain possible reasons for the trends.**

**Advice:** This question is suggested to be marked globally with teacher flexibility advised. It is expected that students will explain what both indicators measure, the trend in both indicators and whether this indicates an improvement in the management of Marcia's Merchandise's assets. However, in order to be awarded full marks, students should identify that the reason for the change in the Asset Turnover increasing and the Return on Assets decreasing is due to a decrease in the Net Profit Margin.

***Suggested Answer:*** *Marcia's Merchandise has been more effective in using its assets in 2021 to generate sales, as reflected in the increase in the Asset Turnover. In 2021, Marcia's Merchandise's assets were able to generate $2 of sales for every $1 of average assets. This is favourable compared to 2020 when only $1.50 of sales were generated for every $1 of average assets.*

*However, Marcia's Merchandise has been less effective in using its assets in 2021 to generate profit, as reflected in the decline in the Return on Assets. In 2021, Marcia's Merchandise's assets were able to generate 12 cents of profit from each $1 of average assets. This is unfavourable compared to 2020 when 13.5 cents of profit were generated for every $1 of average assets.*

*When the Return on Assets decreases and the Asset Turnover increases it means that the Net Profit Margin has decreased, meaning that Sales have increased by a greater percentage than the percentage increase in Profit. Return on Assets decreases when the Net Profit Margin has decreased at a greater percentage than the percentage increase in the Asset Turnover. Even though the Asset Turnover has increased, it is the worsening expense control that has caused the Net Profit Margin to decrease.*

**END OF SUGGESTED SOLUTIONS**