ACCOUNTING

Unit 3

Targeted Evaluation Task for School-assessed Coursework

2021 TET 1 - Folio of three exercises – Recording and Analysing Financial Data for Outcome 1

SOLUTIONS AND RESPONSE GUIDE

EXERCISE ONE

Question 1 **14 marks**

a. General Journal

Date 2021	**Details**	**Debit**	**Credit**
24/6	Accounts Receivable – Office Experts	1 980	
	Sales		1 800
	GST Clearing		180
	Cost of Sales	900	
	Inventory		900
30/6	Inventory	2 500	
	GST Clearing	250	
	Accounts Payable – Fitzroy Furniture		2 750

5 marks for first entry
2 marks for second entry

7 marks

b. Document A will result in an increase in assets of $2 500 as inventory will increase by $2 500. Liabilities will increase by $2 500 as accounts payable increases by $2 750 and GST Clearing will decrease by $250. There will be no impact on owners equity.
1 mark for effect on assets
1 mark for effect on liabilities
1 mark for effect on owners equity

3 marks

c. The transaction is a credit sale which is recorded in the General Journal of Deluxe Desks as according to the Accrual Basis Assumption, revenue is recognised when is it earned and expenses when incurred in order to calculate an accurate net profit.
1 mark for accrual basis
1 mark for explanation

2 marks

d. Fitzroy Furniture would report Deluxe Desks as an account payable which is a current liability as it is a present obligation of the entity to transfer an economic resource as a result of past events. Current liabilities are obligations of the entity that are reasonably expected to be settled within 12 months after the end of the reporting period.
1 mark for current liability accounts payable
1 mark for explanation

2 marks

Question 2 **12 marks**

a. The transaction is a sales return of inventory with a cost price of $500 and a selling price of $1 000 (plus GST)
1 mark for sales return
1 mark for explanation

2 marks

b. The GST clearing would be reported as a current asset of $350 as it is a present economic resource controlled by the entity as a result of past events. GST clearing is reasonably expected to be converted to cash by a business within 12 months after the end of the reporting period.
1 mark for current asset of $350
2 marks for explanation

3 marks

c. The transaction on 18 December 2021 is a credit sale. It will result in an increase in assets of $5 700 due to accounts receivable increasing by $10 450 and inventory decreasing by $4 750. Liabilities will increase by $950 of GST clearing and owners equity will increase by $4 750.
1 mark for impact on assets
1 mark for impact on liabilities
1 mark for impact on owners equity

3 marks

d.

Date 2020	**Details**	**Debit**	**Credit**
28/12	Accounts Receivable	7 040	
	Sales		6 400
	GST Clearing		640
	Cost of Sales	3 200	
	Inventory		3 200

2 marks for first entry
2 marks for second entry 4 marks

Question 3 **24 marks**

a.

General Journal

Date 2021	Details	Debit	Credit
1/7	Delivery Van	30 000	
	Loan – Sutton Finance		5 000
	Bank	25 000	
	Capital		50 000

1 mark for each line

4 marks

b.

Bank

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
1/7	Capital	25 000			

Delivery Van

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
1/7	Capital	30 000			

1 mark for each entry

2 marks

c. The vehicle is treated as a capital contribution as it represents the contribution of the vehicle by the owner to the business and therefore a change in ownership. The Entity Assumption requires that records of assets, liabilities and business activities of the entity are kept completely separate from those of the owner of the entity as well as from those of other entities. A separate set of accounting records is maintained for each entity, and the financial statements prepared provide information on that entity only

1 mark for entity assumption
1 mark for change of ownership
1 mark for explanation

3 marks

d. The contribution of cash will result in an increase in assets and owners equity in the balance sheet of Choc to Home.
It will result in an increase in the cash flows from financing activities in the cash flow statement.
There will be no effect on the income statement.

1 mark for each report

3 marks

e. The loan would be reported as a current liability of $2 400 and a non current liability of $2 600. A loan is a present obligation of the entity to transfer an economic resource as a result of past events. Current liabilities are obligations of the entity that are reasonably expected to be settled within 12 months after the end of the reporting period. Non-current liabilities are obligations of the entity that are not required to be settled within 12 months after the end of the reporting period.

2 marks for current liability
2 marks for non-current liability

4 marks

f. The contribution of the delivery van was completed using a valuation by Dan’s best friend. While we are not made aware of his friends valuation skills or qualifications it could be considered a breach of verifiability as the valuation seems high and it may not be the same value reached by independent, knowledgeable observers.
It also needs to be considered whether it is a breach of faithful representation as the value may not be considered free from bias, particularly if his friend was not suitably qualified.
It is important to consider the impact of the valuation on the decision making on the decisions made by users of the accounting reports when taking onto consideration relevance.
The value also has ethical implications if the balance sheet is used by decision makers such as banks and accounts receivable who are considering providing finance to the business.

Mark this question globally

6 marks

END OF EXERCISE ONE

EXERCISE TWO

Question 1 **36 marks**

a.

Item:	A1 Projector							**Location:**	Aisle 2		
Code:	ER1							**Supplier:**	Screened		
		IN			**OUT**			**BALANCE**			
Date 2021	**Details**	**Qty**	**Unit Cost**	**Value**	**Qty**	**Unit Cost**	**Value**	**Qty**	**Unit Cost**	**Value**	
1 June	Balance							4	300	1 200	
								6	350	2 100	
8	Inv 12				3	300	900	1	300	300	
								6	350	2 100	
16	EFT 9	5	500	2 500				1	300	300	
								6	350	2 100	
								5	500	2 500	
20	Rec 19				1	300	300	4	350	1 400	
					2	350	700	5	500	2 500	
22	Cr Note 1	2	350	700				6	350	2 100	
								5	500	2 500	
23	Cr Note 14				2	350	700	4	350	1 400	
								5	500	2 500	
25	Memo 8				1	350	350	3	350	1 050	
								5	500	2 500	
30	Memo 9				3	350	1 050	5	500	2 500	
30	Memo 10				1	210	210	1	290	290	
								4	500	2 000	

9 marks

b.

Date 2020	**Details**	**Debit**	**Credit**
30/6	Inventory Loss	1 050	
	Inventory		1 050
	Inventory Writedown	210	
	Inventory		210

4 marks

c. The inventory writedown would result in a decrease in assets of $210 due to a decrease in inventory and a decrease in owners equity of $210 due to the decrease in net profit. There would be no impact on liabilities

1 mark for impact on assets
1 mark for impact on liabilities
1 mark for impact on owners equity

3 marks

d.

= 6 * 800 – 2 * 800
= $3 200

1 mark for sales
1 mark for sales returns

2 marks

g.

Kennedy's Projectors
Income Statement (Extract) for the month ended 30 June 2020

	$	$
Revenue		
Sales	4 800	
Less Sales Returns	1 600	3 200
Less Cost of Goods Sold		
Cost of Sales	1 200	
Gross Profit		2 000
Less Inventory Loss	1 050	
Less Inventory Writedown	210	1 260
Adjusted Gross Profit		740

1 mark Net Sales
1 mark for Cost of Sales
1 mark for Inventory Loss
1 mark for Inventory Writedown
1 mark for Adjusted Gross Profit

5 marks

h. The inventory cost assignment method chosen can impact the profit of the business. The FIFO cost assignment method records the cost price of inventory sold based on the assumption that the first inventory purchased is the first inventory sold. The identified cost method uses the actual cost price of the inventory purchased as the cost of sales when the inventory is sold. If the cost price of the inventory is rising it is assumed that the FIFO method will provide a lower cost of sales and therefore higher net profit.
1 mark for defining FIFO
1 mark for defining identified Cost
2 marks for explanation

4 marks

i. The transaction on the 20th of June would result in an increase in accounts receivable of $2 640 and a decrease in inventory of $800, therefore an increase in assets of $1 840. Liabilities would increase by $240 of GST and an increase in owners equity of $600 of net profit.

1 mark for impact on assets
1 mark for impact on liabilities
1 mark for impact on owners equity

3 marks

j. There are a number of issues which arise from Matt's request. When choosing a cost allocation method for inventory Matt needs to consider the most appropriate method taking into account the ability to identify each item of inventory as well the cost of doing that. He is allowed to use different methods for each line of inventory as he may think that using the identified cost method which requires him to identify each unit of inventory may not be suitable for all inventory. For these items the first in first out method may be more appropriate.

Matt also needs to consider whether his decision to change methods will have an adverse effect on the decision made by potential buyers as he may be overstated not only the profit but also the cost price of inventory on hand. He needs to consider the ethical implications of this decision.

Matt must also ensure that the method chosen appropriately matches the expenses incurred with the revenue earned from each sale to ensure that he his following the accrual basis of accounting.

The constant changing would also potentially breach faithful representation as he is using bias in his choice of method to inflate profit as well as breaching comparability as he is constantly changing methods.

Mark this question globally

6 marks

Question 2 **14 marks**

a.

Inventory

Date 2021	**Cross-reference**	**Amount**	**Date 2021**	**Cross-reference**	**Amount**
1/9	Balance	10 000	5/9	Cost of Sales	2 000
14/9	Bank	3 600	18/9	Cost of Sales	4 800
24/9	Accounts Payable – Elite Sports	3 600	30/9	Balance	10 400
		17 200			17 200
1/10	**Balance**	**10 400**			

GST Clearing

Date 2021	**Cross-reference**	**Amount**	**Date 2021**	**Cross-reference**	**Amount**
14/9	Bank	360	1/9	Balance	420
24/9	Accounts Payable – Elite Sports	360	5/9	Accounts Receivable – Northern Football	800
30/9	Balance	2 420	18/9	Bank	1 920
		3 140			3 140
			30/9	Balance	2 420

6 marks for Inventory
6 marks for GST Clearing

12 marks

b. The business balances Balance Sheet accounts in the general ledger as financial reports are prepared on the assumption that the existing entity will continue to operate into the future. The Going Concern Assumption assumes that the entity will not be wound up in the near future but will continue its activities.
1 mark for balance sheet accounts
1 mark for going concern

2 marks

END OF EXERCISE TWO

EXERCISE THREE

Question 1 **16 marks**

a. General Journal

Date 2021	**Details**	**Debit**	**Credit**
30/6	Capital	9 900	
	Sales		9 000
	GST Clearing		900
	Cost of Sales	4 500	
	Inventory		4 500
	Office Equipment	5 000	
	Capital		5 000
	Rent Expense	2 200	
	Insurance Expense		2 200
	Inventory	4 500	
	Inventory Gain		4 500

1 mark for each line

11 marks

b. A business would prepare a trial balance to check for errors based on the trial balance not balancing and to prepare and Income Statement or Balance Sheet.
1 mark for each reason

2 marks

c. The cash sale was recorded as a capital contribution which would result in revenue and expenses being understated. The accrual basis assumption requires the business to recognise revenue when earned and expenses when incurred in order to calculate an accurate net profit.
1 mark for accrual basis
2 marks for explanation

3 marks

Question 2 **17 marks**

a.

11 * $50 = 550
12 *65 = 780
10 * 75 = 750
= 2 080

3 marks

b.

General Journal

Date 2021	**Details**	**Debit**	**Credit**
30/6	Inventory loss	50	
	Inventory		50
	Inventory Writedown	450	
	Inventory		450

4 marks

c. The inventory writedown provides information that is useful for decision making by the users of the Income Statement as well as ensuring that the financial information is comprehensible to users with reasonable knowledge of business and economic activities. To be understandable, information should be presented clearly and concisely. Understandability and Relevance
1 mark for relevance and explanation
1 mark for understandability and explanation

4 marks

d. Peter is correct in considering the need for the information in the accounting process to be useful. The business could choose not to use the perpetual inventory method which would not require all transactions to be recorded in inventory cards. While this would reduce the amount of work to be completed in the inventory process it would be provide less useful information. While Peter is correct that he could count the inventory on hand when required he needs to consider the time required in doing this. He also needs to consider that by using inventory cards he will be able to identify inventory losses and to implement processes such as additional security to reduce losses. Peter could also use inventory cards to identify fast and slow moving inventory lines which would allow him to improve inventory management as well as using inventory cards to order when a minimum inventory level is set.
Mark this question globally

6 marks

Question 3 **17 marks**

a. The transaction is a sales return. It will result in a decrease in accounts receivable of $1 100 and an increase in inventory of $500 which will result in assets decreasing by $600. GST liability will decrease by $100 and net profit would decrease owners equity by $1 000.
1 mark for impact on assets
1 mark for impact on liabilities
1 mark for impact on owners equity

3 marks

b.

Date **2021**	**Details**	**Debit**	**Credit**
15/5	Sales returns	1 000	
	GST Clearing	100	
	Accounts receivable – Essendon Racing Club		1 100
	Inventory	500	
	Cost of Sales		500
	Sales return of 1 Sprinter Bike due to poor quality (Credit Note 11)		

1 mark for each line

6 marks

c.

Account Receivable – Essendon Racing Club

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
1/5	Balance	3 000	15/5	Sales Returns/GST Clearing	1 100

Sales Return

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
15/5	Account Receivable – Essendon Racing Club	1 000			

GST Clearing

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
15/5	Account Receivable – Essendon Racing Club	100			

Cost of Sales

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
			15/5	Inventory	500

Inventory

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
15/5	Cost of Sales	500			

1 mark for each entry
1 mark for each account title

8 marks

END OF EXERCISE THREE