# 2021 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.

Delivery costs on 12 January would be treated as a product cost as they can be directly traced to the cost of acquiring the GPA. $3 ($120/40 units) would be added to the purchase cost of the GPAs and not treated as a separate expense item. This would make the unit cost $197 ($194 + $3). Delivery on 25 January would be treated as a period cost – that is, expensed separately as a delivery expense – as there is insufficient detail to identify the cost of delivery of the GPAs from cost of other items in the larger delivery. Imputing the $3 per unit from 12 January may be appealing but costs per unit would vary depending on volume and to do so may be misleading.

## Question 1b.

**SportsFlash**

**General Journal**

| **Date 2020** | **Details** | **Debit** | **Credit** |
|---|---|---|---|
| 31/12 | Accounts Payable | 660 | |
| | Inventory | | 600 |
| | GST Clearing | | 60 |
| | | | |

# Question 1c.

| | | |
|---|---|---|
| FIFO method of cost assignment would assume the 20 units on hand were from the latest purchases: | | |
| 12 @ $200 from net purchases on 25 January | $2 400 | |
| 8 @ $197 from purchase on 12 January | $1 576 | |
| Total cost | $3 976 | |
| Total Cost to be assigned to the 20 GPAs at 31 January | | $3 976 |

# Question 1d.

| | |
|---|---|
| 20 * 135 | |
| Total Cost to be assigned to the 20 GPAs at 31 January | $2 700 |

# Question 1e.

Inventory is valued at the lower of cost or net realisable value (NRV) on an individual or group basis. NRV is the estimated selling price less any direct costs to sell the inventory. The cost of the carry case is a direct cost of selling and would be deducted from the selling price of $150 to determine NRV.

# Question 1f.

**SportsFlash**

**General Journal**

| Date | Details | Debit | Credit |
|---|---|---|---|
| **2020** | | | |
| 31/12 | Inventory Writedown | 1 276 | |
| | Inventory | | 1 276 |

# Question 1g.

It appears there are no checks or balances over the bookkeeper's work which provides an opportunity for fraud to occur. Effectively the bookkeeper has complete access to the business bank account via online banking (for EFT payments) and the writing of cheques with no oversight. There are also no processes to ensure that invoices paid match original orders and that the goods invoiced have been supplied.

Possible procedures to implement to improve internal control:

- before payment of an account the bookkeeper should assemble proof that the order / delivery docket / invoice all match to ensure payments are only made for received goods/services. This should be signed off by a manager/owner who should also be a counter-signatory to any cheques and whose authority/password is required before EFT payments are made.

- Separation of duties. If the size of the business permits, EFT payments should be prepared by the bookkeeper and processed by another employee/manager.
- Direct debits should be used for regular payments (Rent, Drawings, Insurance, Loan Repayments)
- A nominated list of authorised Payees (known suppliers list) can be provided to the bank with exceptional/new payees requiring separate authorization. Daily EFT payment limits should be changed to match approved payments total.
- Direct debits should be used for regular payments (Rent, Drawings, Insurance, Loan repayments).
- Passwords should be changed regularly.

# Question 2a.

Any ethical issue relating to the inventory practices of the business, including:

- specialised skills, lack of training, sales demonstration issues, no career prospects, conflict of interest with staffing
- reduced cost for wages but perhaps higher costs for training
- people are committing to a job that's not going to progress
- licensing.

# Question 2b.

- Price tags could be security coded – reduce inventory loss and assist computerised record-keeping.
- Inventory could be bought in smaller quantities to maintain fashion edge and reduce write downs.
- Inventory could be better displayed and complement other products.
- Inventory location in regard to location in the store and to other products is important.
- Security coding, staff training and buying inventory in smaller amounts all have costs attached to them.
- Individual mark-ups applied to different types or range of inventory – some items may be more profitable if sold at higher prices even if fewer items are sold.
- Inventory could be sold online.
- Improved inventory management leads to improved performance not only for profit but also liquidity.
- Improved inventory turnover and lower levels of inventory improve cash flow.

Students need to discuss the strategy and must consider both positives and negatives of the strategy.

# Question 3a.

A Historical Cost

B Accumulated Depreciation charged so far

C Depreciation Expense per annum

# Question 3b.

| | Option 1 – Petrol delivery van | Option 2 – Electric delivery van |
|---|---|---|
| Depreciation expense (per year) | ((42 000 + 2 000) – 6 000)/3<br>$12 667 | ((56 000 + 2000) -11 000)/3<br>$15 667 |
| Total other van expenses (per year) | $21 500 | $15 500 |

# Question 4a.

12 000 x .25 = 3 000

3 000 / 12 x 5 = 1 250

**Depreciation expense 30 June 2020** $ 1 250

## Question 4b.

**Balance Sheet extract**

| | **30 June 2021** | |
|---|---|---|
| Coffee Machine | 12 000 | |
| Accumulated depreciation – Coffee Machine | (4 250) | 7 750 |

# Question 4c.

**General Journal**

| **Date** | **Details** | **Debit** | **Credit** |
|---|---|---|---|
| **2020** | | | |
| 31/12 | Depreciation – Coffee Machine | 1 500 | |
| | Accumulated depreciation – Coffee Machine | | 1 500 |
| 31/12 | Disposal of Coffee Machine | 12 000 | |
| | Coffee Machine | | 12 000 |

| | | | |
|---|---|---|---|
| | Accumulated depreciation – Coffee Machine | 2 750 | |
| | Disposal of Coffee Machine | | 2 750 |
| | Bank | 4 000 | |
| | Disposal of Coffee Machine | | 4 000 |
| | Loss on disposal of Coffee Machine | 5 250 | |
| | Disposal of Coffee Machine | | 5 250 |
| | | | |
| 1 Dec | Bank | 10 000 | |
| | Loan – BLD Bank | | 10 000 |
| | | | |
| 1 Dec | Coffee Machine | 14 000 | |
| | GST Clearing | 1 400 | |
| | Bank | | 15 400 |

# Question 5a.

**Appliances**

**General Journal**

| Date | Details | Debit | Credit |
|---|---|---|---|
| **2020** | | | |
| 30/6 | Bad debts | 5 500 | |
| | Allowance for doubtful debts | | 5 500 |

# Question 5b.

**Allowance for Doubtful Debts**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| | Accounts Receivable | 6 000 | | Balance | 5 000 |
| | | | | Bad debts | 5 500 |

## Question 6a.

Cash received in June from account receivables.

**Cash collected in June**

| | |
|---|---|
| From May | 26400 |
| From June | 16170 |
| **Cash collected** | **42 570** |

Estimated cash received in June $42 570

## Question 6b

**Budgeted Cash Flow Statement for June 2021**

**Cash flows from Operating Activities**

| | | |
|---|---|---|
| Cash sales | 20 000 | |
| GST receipts | 2 000 | |
| Accounts Receivables | 42 570 | |
| GST paid | -930 | |
| Account Payables | -22 000 | |
| Wages | -4 600 | |
| Rent | -4 500 | |
| Net cash flow from operating activities | | 33 470 |

## Question 6c.

**Income Statement for June 2021**

| | |
|---|---|
| Sales | 50 000 |
| Cost of Sales | 25 000 |
| Gross Profit | 25 000 |

| | | |
|---|---|---|
| Less Other Expenses | | |
| Discount expense | 330 | |
| Rent | 1 500 | |
| Wages | 4 200 | |
| Depreciation - equipment | 2 100 | |
| | | 8 130 |
| Net Profit | | 16 870 |

# Question 7a.

The business may need to improve expense control as a result of the change in net profit margin.

They may have experienced potentially declining sales and may need to advertise.

The business may need to seek out new suppliers.

# Question 7b.

Gross Profit Margin could be used to identify the need to change mark-up by seeking new suppliers or changing selling price.

Return on investment (ROI) could provide the owner with information regarding their return on the capital they have invested in the business. This could allow the owner to determine whether they could consider increasing their investment.

Return on assets (ROA) could alert the owner to the need to update non-current assets which could contribute to additional revenue and potentially increased profit for the business.

# Question 8

- Either of the following were correct:
  - Inventory turnover is faster when goods sit on the shelf for less time. If the business can increase sales and cost of sales from the same amount of inventory then cash will flow into the business at faster rate. Even if the goods are sold on credit then this should still lead in time to an improvement in net cash from operating activities.
  - Accounts receivable turnover is faster when net credit sales increase without the same increase in average accounts receivable. This means that cash is returning more quickly to the business and result in an improvement in net cash from operating activities.
- Better inventory management such as improved location, staff training, placement of inventory on shelves, complementary products and better advertising all may lead to quicker and increased sales.
- Discounts, frequent invoicing and other strategies help to maintain average Accounts receivable.
- This should still lead to an improvement in net cash from operating activities.

# Question 9

**Accrual Basis**

The accrual basis assumption states that revenue should be recognised when it is earned. Although payment was received in January, the work was commenced and completed in February and should be recognised as revenue in February.

# Question 10a.

**Wood234**

**General Journal**

| Date | Details | Debit | Credit |
|---|---|---|---|
| **2020** | | | |
| May 31 | Unearned sales revenue | 82 500 | |
| | Sales | | 75 000 |
| | GST Clearing | | **7 500** |
| | Cost of Sales | 37 500 | |
| | Inventory | | 37 500 |
| | | | |
| | Cleaning Expenses | 1 100 | |
| | Accrued cleaning expense | | 1 100 |
| | | | |
| | Advertising | 15 000 | |
| | Prepaid advertising | | 15 000 |

# Question 10b.

**Relevance or Faithful Representation**

The owner should record depreciation as it allows for the accounting reports to provide information that is useful for decision making. By recognising the allocation of the cost of non-current assets over their useful lives, the users of the reports are able to make decisions based on the real-world economic events that occurred.

# Question 10c.

Unearned sales are a current liability. That is a present obligation to transfer an economic obligation to transfer an economic resource as a result of past events within the next twelve months. Wood234 have received cash (a past event) to make a table (economic resource) in the future. The cash was received by April 1 and the work was completed in 30 days.

# Question 11a.

**Bank**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| March 1 | Balance | 42 890 | March 1 | Accounts Payable | 19 500 |
| 3 | Sales/GST Clearing | 13 200 | 1 | Inventory/GST Clearing | 8 800 |
| 12 | Capital | 2 000 | 1 | Prepaid Rent/GST Clearing | 10 560 |
| 30 | Accounts Receivable | 17 500 | 15 | Advertising/GST Clearing | 1 980 |
| 30 | Loan – Bell Bank | 20 000 | 31 | Balance | 54 750 |
| | | 95 590 | | | 95 590 |
| April 1 | Balance | 54 750 | | | |
| | | | | | |

**GST Clearing**

| Date | Cross-reference | Amount | | Date | Cross-reference | Amount |
|---|---|---|---|---|---|---|
| March 1 | Bank | 800 | | March 1 | Balance | 6 370 |
| 1 | Accounts Payable | 2 550 | | 3 | Bank | 1 200 |
| 1 | Bank | 960 | | 17 | Accounts Receivable | 3 260 |
| 15 | Bank | 180 | | | | |
| 31 | Balance | 6 340 | | | | |
| | | 10 830 | | | | 10 830 |
| | | | | April 1 | Balance | 6 340 |
| | | | | | | |

**Inventory**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| | | | 31/3 | Drawings | 7 000 |
| | | | | | |

**Drawings**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| 31/3 | Inventory | 7 000 | | | |
| | | | | | |

**Prepaid Rent Expense**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| March 1 | Bank | 9 600 | March 31 | Rent | 800 |
| | | | 31 | Balance | 8 800 |
| | | 9 600 | | | 9 600 |
| April 1 | Balance | 8 800 | | | |

**Advertising**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| March 15 | Bank | 1 800 | March 31 | P/L Summary | 1 800 |
| | | | | | |
| | | 1 800 | | | 1 800 |

# Question 11b.

**P/L Summary**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| March 31 | Expenses | 21 800 | March 31 | Revenues | 44 600 |
| 31 | Capital | 22 800 | | | |
| | | 44 600 | | | 44 600 |

**Capital**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| March 31 | Drawings | 7 000 | March 1 | Balance | 46 300 |
| | | | 12 | Bank | 2 000 |
| 31 | Balance | 64 100 | 31 | P/L Summary | 22 800 |
| | | 71 100 | | | 71 100 |
| | | | April 1 | Balance | 64 100 |

# Question 11c.

Revenue and expense accounts are temporary Owner Equity accounts used to measure increases in OE excluding capital contributions (revenue) and decreases in OE excluding owner drawings expenses) for a given period. They are closed at the end of each period as Profit is determined on a periodic basis (maximum of one year) under the Period Assumption.

This requires resetting expense and revenue balances to zero prior to commencing the next period. To achieve this, these accounts are closed / transferred to the P+L Summary account, which then provides a ledger record of the profit for the period. The P + L Summary account is then closed by transferring the balance to the permanent OE account (Capital).