**PES**

**2019 ACCOUNTING UNIT 3**

## Outcome 1 – Set 1

## RECORDING IN ACCOUNTING

**SOLUTIONS & MARKING GUIDE**

**Question 1** (27 marks)

**a. and d. 3 marks + 2 marks**

|  |
| --- |
| **Inventory Item:** Lite Air Travel Bag **Supplier:** Sampsonite**Location:** Keysborough **Cost Assignment Method:** Identified Cost |
| **Date****2019** | **Details** | **IN** | **OUT** | **BALANCE** |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| June 1 | Balance |  |  |  |  |  |  | 10 | 70 | 700 |
| 14 | Inv. B19 | 30 | 60 | 1 800 |  |  |  | 1030 | 7065 | 2 650 |
| 14 | Chq 618 | 30 | 5 | 150 |  |  |  |
| 20 | Inv. 67 |  |  |  | 13 | 65 | 845 | 1017 | 7065 | 1 805 |
| 21 | CN D54 | 1 | 65 | 65 |  |  |  | 1018 | 7065 | 1 870 |
| 25 | CN 23 |  |  |  | 5 | 65 | 325 | 1013 | 7065 | 1 545 |

1. *Award one mark for each line in Inventory Card*

*d. Award one mark for each line in Inventory Card*

**b. 2 marks**

|  |
| --- |
| **Justification:** The payment made in Cheque 618 was for a product cost. The amount paid  |
| was an expense to bring the inventory into a position and location ready for sale and the |
| amount paid could be logically allocated to each individual unit of inventory **[1 mark]**. |
| As a result the amount was added to the cost price of each unit of inventory and included in |
| the inventory card **[1 mark]**. |

**c. 4 marks**

**Aussie Tourist**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| Jun 21 | Sales Returns | 150 |  |
|  | GST Clearing | 15 |  |
|  | Accounts Receivable – Travel Bags Ltd |  | 165 |
|  | Inventory | 65 |  |
|  | Cost of Sales |  | 65 |

*Award one mark for each of the following:*

* *Sales Returns/GST Clearing*
* *Accounts Receivable – Travel Bags Ltd*
* *Inventory*
* *Cost of Sales*

**e. 3 marks**

|  |
| --- |
| **Explanation:** If the business had used FIFO rather than identified cost then the sale of the  |
| inventory would have had a higher cost price **[1 mark]** as the older, more expensive inventory would  |
| have been sold first (inventory with a cost price of 10 units @ $70 per unit and 3 units @ $65  |
| for a total cost of sales of $895) resulting in **a lower Net Profit** compared to using Identified  |
| Cost where the cost of sales was $845 **[1 mark]** |
| The value of inventory in the Balance Sheet would be **lower using FIFO** as the more  |
| expensive inventory items ($70) have already been sold leaving the remaining items on hand  |
| valued at $65 compared to using identified cost where the value of inventory still includes the  |
| items valued at $70. |

**f.** **4 marks**

**Aussie Tourist**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| Jun 26 | Bank | 1 881 |  |
|  | Discount Expense | 99 |  |
|  | Accounts Receivable – Travel Bags Ltd |  | 1 980 |
|  | *Amount owing paid by customer – granted a discount as per credit terms [EFT]* |  |  |

*Award one mark for:*

* *Bank*
* *Discount Expense*
* *Accounts Receivable – K Brown*
* *Narration – must include document number*

**g. 3 marks**

**Accounts Receivable - Travel Bags Ltd**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date****2019** | **Cross-reference** | **Amount** | **Date****2019** | **Cross-reference** | **Amount** |
| Jun 20 | Sales/GST Clearing | 2 145 | Jun 21 | Sales Returns/GST Clearing | 165 |
|  |  |  | 26 | Bank/Discount expense | 1980 |
|  |  | 2 145 |  |  | 2 145 |

*Award one mark for:*

* *Titles and amounts in account (3 marks)*

**h. 2 marks**

**Aussie Tourist**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| Jun 30 | Inventory Loss | 70 |  |
|  |  Inventory |  | 70 |

**i. 4 marks**

|  |
| --- |
| **Discussion:** Returns from customers decrease the revenue earned from sales and so will  |
| lead to a decrease in net profit. The issue for the business is whether to accept all returns from  |
| customers regardless of a reason. This causes some issues for the business. |
| Returns from customers could indicate some issue with the inventory supplied by our |
| suppliers – this may mean the business will have to change their suppliers to one that will |
| provide better quality inventory. |
| It can also indicate an issue with the inventory handling at the business and therefore the |
| business may need to review how it receives and stores inventory. |
| Granting returns is a good business decision as it means customers will become loyal to the |
| business as they know they will be treated well. However, if there are a large number of |
| returns during a period the business may receive a poor reputation, hurting sales in the  |
| future. |
| In addition, some returns may not be for valid reasons – customers changing their mind – and  |
| so the business is required to complete additional recording, costing time and money. |
|  |

*Mark globally*

*Response should provide both a positive and negative point for accepting returns from customers*

**Question 2** (6 marks)

|  |
| --- |
| **Explanation:** The business has a poor cash cycle – cash is leaving the business quicker and |
| more frequently through payments to accounts payable than is being received from accounts |
| receivable. Our customers are paying the business on average every 45 days (an increase of |
| 4 days from 2018) while the business is paying suppliers every 24 days (2 days quicker than |
| 2018).  |
| This explains the need to go into overdraft on a regular basis as the payments to suppliers  |
| occurs before receipts from customers are received. |
| The positive the business has is that inventory is being sold on average 5 days faster than in |
| 2018 meaning revenue is being earned quicker. However, all sales are on credit and so no |
| cash is coming into the business at the time a sale is made and as already noted, customers |
| are slow in paying. |
| There are a range of strategies available to the business including changing the discount or |
| credit terms to customers but as these are already offered they are unlikely to be successful. |
| A better strategy might be to offer cash sales to customers – lowering the price for such sales |
| so cash is received at the point of sale and the business doesn’t have to wait for customers |
| to pay before paying suppliers. |

*Mark globally*

*Response should provide:*

* *an explanation of the financial indicators*
* *a link to why overdraft occurs*
* *one strategy linked to the data*

**Question 3** (15 marks)

**a.** **8 marks**

**Top Shot**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| Jan 1 | Bank | 20 920 |  |
|  | Inventory  | 3 510 |  |
|  | GST Clearing | 1 631 |  |
|  | Equipment | 10 800 |  |
|  | Display Fittings | 800 |  |
|  | Computer | 750 |  |
|  | Accounts Payable – Titlest Golf Equipment |  | 3 861 |
|  | Capital |  | 34 550 |

*Award one mark for each entry in General Journal*

**b. 2 marks**

|  |
| --- |
| **Explanation:** Source documents provide documentary evidence that a transaction has |
| occurred. Source documents assist with internal control as they |
| allow for cross checking of information between various records to ensure verifiability |
| and reliability of information |

*Award one mark for link to evidence provided by source documents*

*Award one mark for the link to internal control*

**c.** 5 marks

|  |
| --- |
| **Discussion:** The valuation used for the computer contributed by the owner is the agreed value of the |
| asset. It doesn’t represent the cost of the computer to the owner as the business will not receive the  |
| full economic benefit of the asset as it is second-hand.  |
| This valuation doesn’t comply with verifiability as there is no source document to verify the value |
| of the computer at its current valuation but there is a document to support its original (higher) cost. |
| However, the business will use the agreed value as this is supported by two qualitative  |
| characteristics of accounting – relevance and faithful representation. |
| Faithfull representation requires information in reports is a faithful representation of the real-world  |
| economic event it represents – therefore it reflects the true value of the asset to the business and is |
| a measure of the benefit the business will receive. |
| Relevance requires that information be related to an economic decision. Information is relevant to a  |
| decision if it helps users to form predictions about the outcomes of past, present or future events.  |
| The valuation used is relevant as it will assist the business in making decisions in the future  |
| Regarding items such as depreciation, when to replace the asset and Balance Sheet values if the |
| business needs to apply for a loan in the future. |
|  |

*Mark globally*

*Response should provide:*

* *a link to at least two qualitative characteristics*
* *an explanation as to the value selected*
* *a discussion – counter-argument must be provided*

**Question 4** (5 marks)

|  |
| --- |
| **Discussion:** The decision to stop using single-use plastic bags is an ethical decision made by |
| the business owner that supports her personal beliefs in terms of environmental |
| sustainability. Plastic bags are a concern for the environment as they don’t break down |
| easily and often end up in waterways and as rubbish in the street. To stop using these items |
| is a positive decision and environmental groups and like-minded people will support her |
| decision and it could increase her customer base. |
| However, her employee is correct and some people may see this as a means of increasing  |
| revenue as she has an additional item for sale – the re-usable bags and the cloth bags. |
| My Tran should counter this by stating that she is encouraging, supporting and allowing |
| customers to bring their own bags and she is offering bags for sale in an effort to assist her |
| customers during this transition period – she doesn’t want customers to not be able to buy |
| what they want because they are unable to carry their purchases with them. |
| If My Tran is concerned about the image that may be created of her business she could  |
| consider giving the re-usable plastic bags away for free for a period of time and still sell the |
| cloth bags to further ease customers through the transition period. |

*Mark globally*

*Response should provide:*

* *a discussion – counter-argument must be provided*

**Question 5** (7 marks)

**a.** **4 marks**

**Peak Fitness**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| June 30 | Buying Expenses | 200 |  |
|  | GST Clearing | 20 |  |
|  |  Drawings |  | 220 |
|  |  |  |  |
|  | Inventory | 600 |  |
|  |  Inventory Gain |  | 600 |

*Award one mark for both Buying Expenses and GST Clearing*

*Award one mark for every other entry in General Journal*

**b. 3 marks**

|  |
| --- |
| **Explanation:**  |
| The Trial Balance is a list of all General Ledger accounts and their balances (**1 mark)** |
| The Trial Balance provides a check on the accuracy of the double entry |
| Recording in the General Ledger prior to the preparation of financial reports. (**1 mark)** |
| If the Trial Balance does not balance, management is alerted to an error and have the  |
| opportunity to correct it which will lead to more accurate and reliable reports being prepared. **(1 mark)** |

**END OF SOLUTION**