**PES**

**2019 ACCOUNTING UNIT 3**

## Outcome 1 – Set 2

## RECORDING IN ACCOUNTING

**SOLUTIONS & MARKING GUIDE**

**Question 1** (24 marks)

1. **13 marks**

**Alltronics**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| May 30 | Accounts Payable – AX Electronics | 800 |  | **[1 mark]** |
|  | Bank |  | 760 | **[1 mark]** |
|  | Discount Revenue |  | 40 | **[1 mark]** |
|  |  |  |  |  |
|  | Sales Returns | 420 |  | **[1 mark]** |
|  | GST Clearing | 42 |  |
|  | Accounts Receivable – T Wilson |  | 462 | **[1 mark]** |
|  | Inventory | 210 |  | **[1 mark]** |
|  | Cost of Sales |  | 210 |
|  |  |  |  |  |
| 31 | Bank | 495 |  | **[1 mark]** |
|  | Sales |  | 450 | **[1 mark]** |
|  | GST Clearing |  | 45 |
|  | Cost of Sales | 225 |  | **[1 mark]** |
|  | Inventory |  | 225 |
|  |  |  |  |  |
|  | Advertising | 105 |  | **[1 mark]** |
|  | Inventory |  | 105 | **[1 mark]** |
|  |  |  |  |  |
|  | Accounts Payable – Pair Electronics | 231 |  | **[1 mark]** |
|  | Inventory |  | 210 | **[1 mark]** |
|  | GST Clearing |  | 21 |

*Award marks as shown*

1. **4 marks**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item:** Pair TV Devices **Supplier:** Pair Electronics  **Location:** Mentone  **Cost Assignment Method:** FIFO | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| May 1 | Balance |  |  |  |  |  |  | 10 | 100 | 1 000 |
| 5 | Inv 546 |  |  |  | 5 | 100 | 500 | 5 | 100 | 500 |
| 12 | Inv 98 | 12 | 105 | 1 260 |  |  |  | 5  12 | 100  105 | 1 760 |
| 17 | Inv 587 |  |  |  | 5  2 | 100  105 | 710 | 10 | 105 | 1 050 |
| *30* | *CN23* | *2* | *105* | *210* |  |  |  | *12* | *105* | *1 260* |
| *31* | *Memo 16* |  |  |  | *1* | *105* | *105* | *11* | *105* | *1 155* |
|  | *CN101* |  |  |  | *2* | *105* | *210* | *9* | *105* | *945* |
|  | *Memo 18* |  |  |  | *9* | *5* | *45* | *9* | *100* | *900* |

*Award 1 mark for each line of inventory card*

**c. 3 marks**

|  |
| --- |
| **Justification:** The decision to write down the inventory is a result of the owner applying the |
| faithful representation characteristic **[1 mark]**. The information reported must be a |
| faithful representation of the real-world economic event it represents and the owner has |
| determined that the real world will only value the inventory at $100 and so this is the value |
| that should be reported **[1 mark]**. |
| This valuation places a realistic value on the inventory and better represents the position of |
| the business **[1 mark]**. |

**d. 4 marks**

**Alltronics**

**General Ledger (extract)**

**Accounts Payable – Pair Electronics**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| 8 | Bank/Discount Revenue | 550 | May 1 | Balance | 550 |
| 19 | Inventory/GST Clearing | 154 | 16 | Inventory /GST Clearing | 792 |
| 31 | Balance | 1 210 | 25 | Inventory /GST Clearing | 572 |
|  |  | 1 914 |  |  | 1 914 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

*Award marks for:*

* *Opening Balance entry*
* *Bank/Discount Revenue entry*
* *Inventory /GST Clearing entry on debit side of account*
* *Both Inventory /GST Clearing entries on credit side of account*

**Question 2** (5 marks)

|  |
| --- |
| **Analysis:** Paula has decided to value her inventory at the selling price plus GST. This |
| Valuation overstates the value of her inventory and therefore would overvalue the assets of |
| the business. This would make her business seem more valuable that what is actually is and |
| when compared to liabilities may indicate a low debt ratio. This would make it more likely |
| that the lending institution would lend the business the necessary money to purchase the |
| computer system. |
| Valuing stock at its selling price and including GST in that valuation is not ethical. This |
| valuation over-inflates the value of the inventory. Including GST is not appropriate as GST |
| is a tax the business collects on behalf of the government and forwards to the ATO. As such |
| it doesn’t belong to the business and shouldn’t be included. |
| Using the selling price is also not appropriate as there is no certainty that the inventory will |
| be sold at that price or even for a profit. The business owner would be better served valuing |
| inventory at its cost price as this figure is verifiable and better represents the value of the |
| inventory. This would allow the lending institution to place an accurate value of the business |
| in deciding whether or not to approve the loan. |

*Mark globally*

*Assess response in terms of linking to*

* *Ethical considerations*
* *Analysis of valuation*
* *Analysis of use of GST*
* *Link to loan application*

**Question 3** (12 marks)

1. **5 marks**

**The Tee House**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| July 31 | Vehicle | 10 000 |  | **[1 mark]** |
|  | Capital |  | 10 000 | **[1 mark]** |
|  |  |  |  |  |
|  | Loan | 1 000 |  | **[1 mark]** |
|  | Interest Expense | 100 |  | **[1 mark]** |
|  | Bank |  | 1 100 | **[1 mark]** |

**b. 7 marks**

**Tee House**

**General Ledger (extract)**

**GST Clearing**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Jul 9 | Bank | 64 | Jul 1 | Balance | 900 |
| 20 | Accounts Receivable | 25 | 6 | Bank | 70 |
|  | Bank | 500 | 15 | Accounts Receivable | 100 |
|  | Accounts Payable | 150 |  |  |  |
| 31 | Bank | 331 |  |  |  |
|  |  |  |  |  |  |

*Award one mark for each entry in the account – opening balance not included as this amount was provided*

**Question 4 (19 marks)**

**a. 4 marks**

|  |
| --- |
| **Explanation:** The data provided shows that the business has a growing problem with debts |
| Ageing. The credit terms require accounts to be settled within 30 days. In 2018 65% of |
| accounts owing were within that time period. In 2019 that figure had fallen to 50%. This |
| could have been caused by the changed in the discount terms from 7 to 14 days, evidenced |
| by the smaller percentage of accounts aged within 1-14 days. |
| Of concern is the percentage of accounts owing for more than 46 days – this has increased |
| from 10% of accounts to 25% of accounts, increasing the likelihood of accounts receivable |
| not paying their account at all and having to be written off. |
| Overall the performance of the business in managing accounts receivable has worsened |
| over the period shown. |

*Mark globally*

*Award marks according to depth of interpretation of data provided*

1. **4 marks**

|  |
| --- |
| **Strategy 1:** Prompt invoicing **[1 mark]** – if invoices are sent promptly less time passes |
| between the sale and when invoice is received – this could reduce the time it takes for |
| accounts to be settled **[1 mark]** |
| **Strategy 2:** Send reminder notices **[1 mark]** – some accounts receivable may forget their |
| account is due (or overdue) and so sending a reminder notice may encourage those accounts |
| to be settled sooner **[1 mark]**. |

1. **4 marks**

|  |
| --- |
| **Positive factor:** An increase in sales has occurred **[1 mark]** and as a result the business has |
| Purchased more inventory as a means of dealing with this increased volume of sales. This is |
| A positive for the business as more revenue is being generated **[1 mark]**. |
| **Negative factor:** An increase in the cost price of stock **[1 mark]** but not an increase in the |
| Selling price – a reduced mark-up on cost. The business have decided not to pass on the |
| increased cost to customers and so has a rising COGS with no change to sales volume which |
| is a negative as profit is lower **[1 mark]**. |

*Other factors could also be explained such as increased advertising leading to more sales, opportunity to buy in bulk, falling sales, increased selling price*

1. **3 marks**

|  |
| --- |
| **Discussion:** One key strategy for improving inventory turnover is to hold less inventory. |
| **[1 mark]** If inventory held decreases then the number of days it takes to turnover inventory |
| will fall and less cash is tied up in inventory and that cash can be used for other expenditure |
| **[1 mark]**. However, less inventory could mean that customers have limited |
| choice/inventory may not be available for them to purchase which may cause a decrease in |
| Sales **[1 mark]** |

*Other strategies could be explained such as lowering selling price, changing stock mix*

**e. 2 marks**

|  |
| --- |
| **Non-Financial Information:** |
| The number of purchase returns/number of customer complaints/number of sales reutns |
| **Explanation:** |
| Ethan could assess the Inventory Turnover by looking at the number of times he has had to |
| return inventory to his suppliers as this will provide him with information about the |
| quality of his inventory to ensure that he is meeting the demands of his customers |

*Other examples of non-financial information could be explained but must be linked to how it can be used to assess the Inventory Turnover.*

**f. 3 marks**

|  |
| --- |
| **Explanation:** The comparison would provide some useful information for Ethan. It would |
| indicate if the business was performing to a level that was as good as, better or worse than the |
| industry average and he could use that information to make decisions **[1 mark]**. |
| However, he should make the comparison knowing the limitations of the analysis – there are |
| differences in the size of the businesses, the age of the businesses and the level of |
| competition faced by the different businesses. This can mean he is not comparing his |
| business to ‘like’ businesses and so the comparison may be skewed **[1 mark]**. |

*Award marks as indicated*

**END OF ANSWER BOOKLET**