**PES**

**2019 ACCOUNTING UNIT 4**

## Outcome 1 – Set 1

## EXTENSIONS OF RECORDING AND REPORTING

**SOLUTION**

**Question 1** (7 marks)

1. **1 mark**

|  |
| --- |
| **Calculation:**$12 000 – 2 000/10 = 1 000 per annum |
|  | **Depreciation of Fittings: $ 1 000** |

**b. 2 marks**

|  |
| --- |
| **Explanation:** The straight line method is suitable for the Fittings as they are expected to |
| have the same revenue earning capacity regardless of their age and as such the depreciation  |
| allocated each period should be the same as it contributes evenly to earning revenue **[1]**. |
| The Vehicles on the other hand are expected to earn more revenue in their earlier life |
| than later in its years. The reducing balance method would be more appropriate as it will  |
| allocate more depreciation expense when the asset is earning more revenue and less as  |
| the Vehicle ages **[1]**. |

1. **2 marks**

|  |
| --- |
| **Calculation:**$30 000 – 6 000 = $24 000 **[1]** x 20% **[1]** = $4 800 per annum |
|  | **Depreciation Vehicle: $ 4 800** |

1. **2 marks**

|  |  |  |
| --- | --- | --- |
| **Item** | **Increase/Decrease** | **Amount****$** |
| **Depreciation Vehicle - 2019** | Decrease **[1]** | $800 **[1]** |
| **Depreciation Vehicle - 2020** | Increase **[1]** | $160 **[1]** |

**Question 2 (9 marks)**

**a. 7 marks**

**Basic Sports**

**General Ledger (extract)**

**Computer**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date****2019** | **Cross-reference** | **Amount** | **Date****2019** | **Cross-reference** | **Amount** |
| Oct 1 | Balance | 3 000 | Oct 1 | Disposal of Computer | 3 000 |
|  | Bank | 5 000 |  |  |  |
|  |  |  |  |  |  |

**Disposal of Computer**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date****2019** | **Cross-reference** | **Amount** | **Date****2019** | **Cross-reference** | **Amount** |
| Oct 1 | Computer | 3 000 | Oct 1 | Bank | 300 |
|  |  |  |  | Accumulated Depreciation Computer | 2 000 |
|  |  |  |  | Loss on Disposal of Computer | 700 |
|  |  | 3 000 |  |  | 3 000 |

**Loan – Community Finance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date****2019** | **Cross-reference** | **Amount** | **Date****2019** | **Cross-reference** | **Amount** |
|  |  |  | Oct 1 | Bank | 4 500 |
|  |  |  |  |  |  |

1. **2 marks**

|  |
| --- |
| **Explanation:** One advantage of using borrowed funds to finance the purchase of the |
| Computer is that the business has more time to pay for the asset **[1]** as trade credit is  |
| usually only 30 days **[1]**. |
| **OR** A loan would have a cheaper rate of interest expense than using a bank overdraft or  |
|  trade credit |

**Question 3** (2 marks)

|  |
| --- |
| A bad debt is a debt that must be written off as irrecoverable because the Accounts  |
| Receivable is unable to pay due to liquidation or bankruptcy **[1]**. |
| On the other hand, a doubtful debt is a debt that is unlikely to be collected in the |
| future but has not yet been written off as it has not been confirmed that the Account |
| Receivable is unable to pay **[1]**. |
|  |
|  |

**Question 4** (28 marks)

**a. 12 marks**

**Precious Time**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Dec 31 | Inventory Loss | 300 |  | **1** |
|  |  Inventory |  | 300 | **1** |
|  | Rent Expense | 18 000 |  | **1** |
|  |  Prepaid Rent Expense |  | 18 000 | **1** |
|  | Unearned Sales Revenue | 95 310 |  | **1** |
|  |  Sales Revenue |  | 95 310 |
|  | Cost of Sales | 47 655 |  | **1** |
|  |  Inventory |  | 47 655 |
|  | Bank | 3 000 |  | **1** |
|  |  Accrued Commission |  | 3 000 | **1** |
|  | Wages | 500 |  | **1** |
|  |  Accrued Wages |  | 500 |
|  | Allowance for Doubtful Debts | 130 |  | **1** |
|  | GST Clearing  | 13 |  |
|  |  Accounts Receivable |  | 143 | **1** |
|  |  |  |  |  |
|  | Bad Debts | 64 |  | **1** |
|  |  Allowance for Doubtful Debts |  | 64 |
|  |  |  |  |  |

**QUESTION 4 -** continued

**b. 2 marks**

|  |
| --- |
| **Explanation:** The liability approach to unearned revenue is a method of accounting where |
| the initial receipt of the revenue is treated as a liability **[1]** as the business has created an  |
| obligation of future economic sacrifice to provide goods in the future **[1]**.  |
|  |

**c. 4 marks**

|  |
| --- |
| **Discussion:** I agree to this statement to some extent.  |
| An Adjusted Trial Balance is prepared after the recording of balance day |
| adjustments have been recorded **[1]**. If this report balances it can confirm that the  |
| double entry recording during the reporting period has been accurate and that the  |
| business can confidently go ahead and prepare financial reports **[1]**. |
| **However**, despite the two sides of the Adjusted Trial Balance equalling this does not |
| necessarily mean that the double entry recording has been accurate **[1]**.  |
| If the business has left out an entry, reversed the debit and credit entries or incorrectly |
| entered the wrong amount on both the debit and credit sides – the Adjusted Trial Balance |
| will still balance but the double entry recording is not correct **[1]**. |

**QUESTION 4 –** continued

**d. 6 marks**

**Precious Time**

**Income Statement for six months ended 31 December 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Revenue** |  |  |
| Sales |  | **95 310** |
| **Less Cost of Goods Sold** |  |  |
| Cost of Sales |  | 47 655 |
| **GROSS PROFIT** |  | **47 655** |
| Less Inventory Loss |  | 300 |
| **ADJUSTED GROSS PROFIT** |  | **47 355** |
| **Add Other Revenue** |  |  |
| Discount Revenue | 320 |  |
| Profit on Disposal of Vehicle | 570 | 890 |
|  |  | **48 245** |
| **Less Other Expenses** |  |  |
| Insurance | 2 450 |  |
| Office Supplies Expense | 1 200 |  |
| Rent Expense | 4 000 |  |
| Wages | 13 950 |  |
| Bad Debts | 64 |  |
| General Expense | 4 398 |  |
| Interest Expense | 890 |  |
| Electricity | 2 790 | 29 742 |
| **NET PROFIT** |  | **$18 503** |

**QUESTION 4 –** continued

*Award 1 mark for Sales*

*Award 1 mark for Cost of Sales/Gross Profit*

*Award 1 mark for Inventory Loss/Adjusted Gross Profit*

*Award 1 mark for Other Revenues*

*Award 1 mark for every 4 expenses as shown*

**e. 4 marks**

**Precious Time**

**Balance Sheet (extract) as at 31 December 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **CURRENT ASSETS** |  |  |
| Bank | 38 590 |  |
| Accounts Receivable | 3 800 |  |
| Less Allowance for Doubtful Debts | (114) |  |
| Inventory | 44 500 |  |
| Accrued Commission Revenue | 400 |  |
| Prepaid Rent Expense | 6 000 | $93 176 |
|  |  |  |

*Award 1 mark for Accounts Receivable/Allowance for Doubtful Debts*

*Award 1 mark for Ban/Inventory*

*Award 1 mark for Accrued Commission Revenue*

*Award 1 mark for Prepaid Rent Expense*

**Question 5 (4 marks)**

|  |
| --- |
| **Discussion:** Recording all the unearned sales revenue as being earned when the business |
| has not yet provided the inventory for the sale conflicts with relevance **[1]** as the business |
| is recognising revenue and increasing net profit in a reporting period when it has not |
| been earned **[1]**. This decision is unethical as it impacts the users of the information who see  |
| the revenue earned as being higher than it actually is **[1]**. |
| This decision further conflicts with the accrual basis assumption as the business is  |
| recognising the revenue when the cash has been received and not when the revenue has been  |
| earned so that an accurate net profit is not being presented **[1].** |
|  |

**END OF ANSWER BOOK**