VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

# 2019 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.**

**Beachside Carpets**
**Cash Receipts Journal**

| Date 2019 | Details | Rec No. | Bank | Disc. Exp. | Debtors Control | Cost of Sales | Sales | Sundries | GST |
|---|---|---|---|---|---|---|---|---|---|
| Mar. 3 | Capital | 784 | 10 000 | | | | | 10 000 | |
| 8 | Cash Sales | 785 | 4 675 | | | 2 550 | 4 250 | | 425 |
| 14 | J Terrell | 786 | 1 261 | 125 | 1 386 | | | | |
| 21 | R Chee | 787 | 435 | 15 | 450 | | | | |
| 22 | K Martin | 788 | 260 | 15 | 275 | | | | |
| 29 | G Long | 789 | 440 | | 440 | | | | |
| | | | | 155 | 2551 | | | | |

**Sales Journal**

| Date 2019 | Debtor | Invoice Number | Cost of Sales | Sales | GST | Debtors Control |
|---|---|---|---|---|---|---|
| Mar. 2 | D Starr | 1655 | 408 | 680 | 68 | 748 |
| 9 | J Terrell | 1656 | 732 | 1 220 | 122 | 1 342 |
| 15 | K Martin | 1657 | 150 | 250 | 25 | 275 |
| 23 | R Chee | 1658 | 240 | 400 | 40 | 440 |
| | | | | | | |

**General Journal**

| Date 2019 | Details | General Ledger | | Subsidiary Ledger | |
|---|---|---|---|---|---|
| | | Debit | Credit | Debit | Credit |
| Mar. 2 | Sales Return | 140 | | | |
| | GST Clearing | 14 | | | |
| | Debtors Control | | 154 | | |
| | Debtor – J Terrell | | | | 154 |
| | Stock Control | 84 | | | |
| | Cost of Sales | | 84 | | |
| | | | | | |
| 29 | Bad Debts | 440 | | | |
| | Debtors Control | | 440 | | |
| | Debtor – G Long | | | | 440 |
| | | | | | |
| | | | | | |

**Question 1b.**

**Debtors Control**

| Date 2019 | Cross-reference | Amount | Date 2019 | Cross-reference | Amount |
|---|---|---|---|---|---|
| Mar. 1 | Balance | 3 520 | Mar. 31 | Bank/Discount exp. | 2 551 |
| Mar. 31 | Sales/GST Clearing | 2 805 | | Sales Return/GST Clearing | 154 |
| | | | | Bad Debts | 440 |
| | | | | Balance | 3 180 |
| | | 6 325 | | | 6 325 |
| April 1 | Balance | 3 180 | | | |

**Question 1c.**

**Benefit 1:** A control account for debtors keeps unnecessary detail out of the general ledger, which facilitates the preparation of the financial reports. It makes posting from the journal more efficient as totals are posted from the Sales and Cash Receipts Journals to the Control account.

**Benefit 2:** The Control account and the Subsidiary Ledger account can be checked against one another via the Debtors Schedule to detect any recording errors made during the period. The total of the schedule must equal the balance of the Control account, thus ensuring accuracy in recording.

**Question 2a.**

**Stock Card**

| **Product: Acme dog brush** | | | | | | | | | | **Cost Assignment Method: FIFO** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Date 2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| | | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| Mar. 1 | Balance | | | | | | | 18 | 12 | 216 |
| 8 | Invoice 473 | | | | 14 | 12 | 168 | 4 | 12 | 48 |
| 12 | Invoice TR282 | 20 | 14 | 280 | | | | 4 | 12 | 48 |
| | | | | | | | | 20 | 14 | 280 |
| 23 | Credit Note 142 | 5 | 12 | 60 | | | | 9 | 12 | 60 |
| | | | | | | | | 20 | 14 | 280 |
| 24 | Credit Note 234 | | | | 5 | 12 | 60 | 4 | 12 | 48 |
| | | | | | | | | 20 | 14 | 280 |
| 31 | Memo 88 | | | | 4 | 12 | 48 | | | |
| | | | | | 1 | 14 | 14 | 19 | 14 | 266 |
| | | | | | | | | | | |

**Question 2b.**

**Description:**

Assets: Debtors Control increases ($336 + 33.60) while Stock Control decreases by $168

Liabilities: GST Clearing increases by $33.60

Owner's Equity: Sales increases by $336 and Cost of Sales increases by $168, resulting in an overall increase in Owner's Equity (Net Profit) $168

**Question 2c.**

**Pets Plus**
**General Journal**

| **Date 2019** | **Details** | **General Ledger** | | **Subsidiary Ledger** | |
|---|---|---|---|---|---|
| | | **Debit** | **Credit** | **Debit** | **Credit** |
| Mar. 24 | Creditors Control | 66 | | | |
| | GST Clearing | | 6 | | |
| | Stock Control | | 60 | | |
| | Creditor: ZZZ Brushes | | | 66 | |

**Question 2d.**

**Advantage 1:** may improve liquidity with less funds tied up in stock, so more cash available

**Advantage 2:** prevents items from becoming obsolete, which can damage profitability

**Disadvantage 1:** slow-moving items may be more profitable than other lines

**Disadvantage 2:** the deleted items may attract customers to the business, who may then purchase other items

**Question 3a.**

**Global Business Centre**
**General Journal**

| Date 2019 | Details | General Ledger | | Subsidiary Ledger | |
|---|---|---|---|---|---|
| | | Debit | Credit | Debit | Credit |
| April 30 | Disposal of 3D printer | 3 200 | | | |
| | 3D printer | | 3 200 | | |
| | | | | | |
| April 30 | Acc. Dep'n of 3D printer | 2 700 | | | |
| | Disposal of 3D printer | | 2 700 | | |
| | | | | | |
| April 30 | Sundry Creditor – Tex Computers | 600 | | | |
| | Disposal of 3D printer | | 600 | | |
| | | | | | |
| April 30 | Disposal of 3D printer | 100 | | | |
| | Profit on Disposal of 3D printer | | 100 | | |
| | | | | | |
| April 30 | 3D printer | 2 500 | | | |
| | GST Clearing | 250 | | | |
| | Sundry Creditor – Tex Computers | | 2 750 | | |
| | | | | | |

**Question 3b.**

**Qualitative characteristic:** relevance/understandability

**Justification:** Relevance requires all information likely to affect decision-making by management to be reported in financial reports at the end of a period. The balance owing to Tex Computers ($1350) should be reported as a Current Liability in the Balance Sheet of the Global Business Centre. This present obligation of the business is likely to be settled within the next 12 months, is a Sundry Creditor and therefore is a Current Liability. This is relevant to management as it should be considered when budgeting for the next 12 months.

**Question 3c.**

| Item | Operating/Investing/ Financing | Inflow/Outflow | Amount ($) |
|---|---|---|---|
| Purchase of printer | Investing | Outflow | $1 350 |

**Question 4**

**Discussion:**

Liquidity – The rapid increase in Debtors Turnover indicates an inability on the part of the business to collect outstanding debts. This is most likely due to a loosening of credit terms, i.e. longer repayment period or the provision of credit to slow-paying customers. In the longer term there is a likely increase in bad debts.

Cash from debtors is increasing; however, payments to suppliers for stock are $80 000 in June compared to $82 000 in cash from debtors. Once payments for operating expenses are considered, the Net Cash Flow from operations would be negative.

Profitability – The Net Profit has fallen in each successive month to be a loss in June. This is due to the decline in the Gross Profit Margin, which can be found by dividing Credit Sales by unit sales (70 000/200 = 350 – 200 = 150), which was $150 per unit in April, $70 in May and $30 in June. Heavy discounting of sales has increased the number of goods sold but at a lower margin. Given expenses remain constant, the increase in sales has been due to heavy discounting of the sales price along with more generous credit terms.

**Question 5a.**

**The Olive Merchant**
**General Journal**

| Date 2019 | Details | General Ledger | | Subsidiary Ledger | |
|---|---|---|---|---|---|
| | | Debit | Credit | Debit | Credit |
| May 31 | Stock Loss | 525 | | | |
| | Stock Control | | 525 | | |
| | | | | | |
| 31 | Stock Write-Down | 1 200 | | | |
| | Stock Control | | 1 200 | | |
| | | | | | |

**Question 5b.**

**Explanation:**

Stock is valued at the lower of cost and NRV to ensure that potential losses are recognised when probable. This is consistent with the principle of conservatism. This meant that the 20 tins that had been recorded at a cost of $105 each were written down by $60 each to their NRV of $45, i.e. by $1200. This amount is expensed as Stock Write-Down.

**Question 5c.**

| **Calculation** | |
|---|---|
| 23 400 = 260 × 90 | |
| 14 700 = 140 × 105 | |
| **Cost of Sales for May 2019** | $38 100 |

**Question 5d.**

**The Olive Merchant**
**Income Statement (extract) for the month ended 31 May 2019**

| | **$** | **$** |
|---|---|---|
| **Revenue** | | |
| Sales | | 60 000 |
| Less Cost of Sales | | 38 100 |
| Gross Profit | | 21 900 |
| Less Stock Loss | 525 | |
| Stock Write-Down | 1 200 | 1 725 |
| Adjusted Gross Profit | | 20 175 |
| | | |

**Question 6**

**Discussion:**

A variety of responses were possible for this question. Some responses included the following:

Current assets

- Debtors – An increase in the days debtors take to pay may occur because of poor management, the amount of outstanding debt increases without a similar increase in sales.
- Stock – An increase in the days it takes to turn stock into sales may be due to obsolete stock, poor location in the store or an excess of slow-moving items. More stock is being carried without an increase in sales.
- Bank – Loans may have been taken out or a capital injection made. If this increase in bank occurred without an increase in sales, asset turnover would decrease.

Non-current assets

- As non-current assets have increased over time, if sales remain constant the asset turnover would fall.
- Items such as equipment may be suffering breakdowns, leading to a loss of efficiency. Some assets may be outdated, not as reliable and may not be generating the same amount of revenue.
- It is possible that some new assets were acquired (such as display equipment), but they are yet to be fully utilised and are therefore yet to reach their full efficiency.

### Question 7a.

**Explanation:** It is an expense because it is a reduction in an asset, and therefore a loss of economic benefits, which results in a decrease in Owner's Equity. It contributes to the generation of revenue.

### Question 7b.

**The Wedding Shop**
**General Journal**

| Date 2019 | Details | General Ledger | | Subsidiary Ledger | |
|---|---|---|---|---|---|
| | | Debit | Credit | Debit | Credit |
| Jun. 30 | Rent Expense | 84 000 | | | |
| | Prepaid Rent | | 84 000 | | |
| | | | | | |
| 30 | Insurance Expense | 18 000 | | | |
| | Prepaid Insurance | | 18 000 | | |
| | | | | | |
| 30 | Sales | 500 | | | |
| | Prepaid Sales Revenue | | 500 | | |
| | | | | | |
| 30 | Interest Expense | 400 | | | |
| | Accrued Interest | | 400 | | |

### Question 7c.

**Accounting principle:** reporting period

**Explanation:** It is reasonable to assume that a vehicle would be more productive in its earlier years when it is most reliable and efficient. This means that the vehicle would generate more revenue in its earlier years and therefore when trying to match expenses with the revenue-earning capacity of the vehicles, the reducing balance method would be preferred as it allocates more expense in the earlier years and less in the latter years of its life.

### Question 7d.

**Explanation:** In the Income Statement, Net Profit would be overstated by $84 000 because the Rent expense would be understated. If the adjustment for Prepaid Rent was not made, the current assets in the Balance Sheet would be overstated and the Owner's Equity would also be overstated by $84 000 because Net Profit would be overstated by the same amount.

**Question 7e.**

**The Wedding Shop**
**Balance Sheet (extract) as at 30 June 2019**

| | $ | $ |
|---|---|---|
| **Current Liabilities** | | |
| Accrued Interest Expense | 400 | |
| GST Clearing | 3 400 | |
| Creditors Control | 20 000 | |
| Prepaid Sales Revenue | 500 | 24 300 |
| | | |
| | | |

**Question 8a.**

**Stock Control**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| | Balance | 108 000 | | Cost of Sales | 417 000 |
| | Creditors Control | 413 000 | | Balance | 104 000 |
| | | 521 000 | | | 521 000 |
| | | | | | |

**Creditors Control**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|---|---|---|---|---|---|
| | Bank | 441 300 | | Balance | 35 000 |
| | Discount Revenue | 8 000 | | Stock Control/GST Clearing | 454 300 |
| | Balance | 40 000 | | | |
| | | 489 300 | | | 489 300 |
| | | | | | |

**Question 8b.**

**Sava Traders**
**Cash Flow Statement (extract) for the year ended 30 June 2019**

| | $ | $ |
|---|---|---|
| **Cash Flows from Financing Activities** | | |
| Loan repayment | (60 000) | |
| Drawings | (73 000) | |
| Net cash flows from Financing Activities | | (133 000) |
| | | |

**Question 8c.**

**Sava Traders**
**Variance Report (extract) for the year ended 30 June 2019**

| Cash Flows From Operating Activities | Budgeted | Actual | Variance | Favourable/ Unfavourable |
|---|---|---|---|---|
| Advertising | 25 000 | 18 000 | 7 000 | Favourable |
| Wages | 110 000 | 120 000 | 10 000 | Unfavourable |
| Receipts from Debtors | 980 000 | 945 500 | 34 500 | Unfavourable |
| | | | | |
| | | | | |

**Question 8d.**

**Explanation:** In a Cash Flow Statement, a favourable variance occurs when an actual inflow is greater than the budgeted inflow or when an actual outflow is less than the budgeted inflow.
In the case of Advertising, the actual is $7 000 below the budgeted figure. While this may be a favourable variance and represents a ‘saving’, it may also indicate a failure to spend the advertising budget and may adversely impact on sales and profit.