**COMMERCE PRESENTATIONS AND PUBLICATIONS**

**ACCOUNTING ASSESSMENT TASK 2020**

**Unit 3 - Outcome 2**

**Preparing and interpreting accounting reports**

SUGGESTED ANSWERS/SOLUTIONS

**Note to teachers and students**

**All completed assessment material (including question booklets) should be collected by the teacher and returned to students upon the completion of Unit 3.**

**Question 1 – Shirley’s Shirts (23 marks)**

1. **Prepare the General Journal entry to close the expense accounts on 30 June 2020.**

**A narration is not required.**

**3 marks**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 30/06 | Advertising |  | 260 |
|  | Cost of Sales |  | 7 870 |
|  | Discount Expense |  | 165 |
|  | Freight Inwards |  | 320 |
|  | Interest Expense |  | 100 |
|  | Inventory Loss |  | 1 020 |
|  | Rent |  | 2 500 |
|  | Wages |  | 3 230 |
|  | Profit and Loss Summary | 15 465 |  |

**1 mark –** any four Expense accounts

**1 mark –** remaining four Expense accounts

**1 mark –** Profit and Loss Summary

1. **Explain how preparing closing entries satisfies the Period accounting assumption.**

**2 marks**

The period assumption outlines that reports are prepared for a particular period of time in order to obtain comparability of results. **(1 mark)**

The purpose of closing entries is to ensure that only the revenues earned and the expenses incurred for the period are included in the calculation of profit by resetting the account balances of revenues and expenses to zero in readiness for the start of the next period so that net profit can be accurately compared for the current period to previous periods. **(1 mark)**

1. **Prepare the Income Statement up to, and including, Other Revenue for the month ended 30 June 2020.**

**6 marks**

**Shirley’s Shirts**

**Income Statement (extract) for the month ended 30 June 2020**

|  |  |  |
| --- | --- | --- |
| **Revenue** | **$** | **$** |
| Cash Sales | 8 460 |  |
| Credit Sales | 11 940 |  |
| Less: Sales Returns | 725 | 19 675 |
| **Less: Cost of Goods Sold** |  |  |
| Cost of Sales | 7 870 |  |
| Freight Inwards | 320 | 8 190 |
| **Gross Profit** |  | 11 485 |
| Less: Inventory Loss |  | 1 020 |
| **Adjusted Gross Profit** |  | 10 465 |
| **Plus: Other Revenue** |  |  |
| Discount Revenue |  | 132 |
|  |  | 10 597 |

**1 mark –** Cash Sales and Credit Sales

**1 mark –** Sales Returns

**1 mark –** Cost of Sales

**1 mark –** Freight Inwards

**1 mark –** Inventory Loss

**1 mark –** Discount Revenue

**1 mark deducted** – incorrect formatting / no sub-total below Other Revenue

1. **Complete the Capital account in the General Ledger as at 30 June 2020.**

**5 marks**

**Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
| 30/06 | Drawings | 2 400 | 01/06 | Balance | 57 914 |
|  | Balance | 64 856 | 09/06 | Bank | 5 000 |
|  |  |  | 30/06 | Profit and Loss Summary | 4 342 |
|  |  | 67 256 |  |  | 67 256 |
|  |  |  | 01/07 | Balance | 64 856 |

**1 mark –** per entry

**1 mark –** balancing Capital account

1. **Prepare the Equities section of the Balance Sheet as at 30 June 2020.**

**Shirley’s Shirts**

**Balance Sheet (extract) as at 30 June 2020**

**7 marks**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Current Liabilities** |  |  |
| Accounts Payable | 4 070 |  |
| Bank Overdraft | 1 116 |  |
| GST Clearing | 933 |  |
| Loan – MNC Bank | 4 800 | 10 919 |
| **Non-Current Liabilities** |  |  |
| Loan – MNC Bank |  | 7 200 |
| **Owner’s Equity** |  |  |
| Capital | 62 914 |  |
| Plus: Net Profit | 4 342 |  |
| Less: Drawings | 2 400 | 64 856 |
| **Total Equities** |  | 82 975 |

**1 mark –** Accounts Payable and GST Clearing

**1 mark –** Bank Overdraft

**1 mark –** Loan – MNC Bank under Current Liabilities heading

**1 mark –** Loan – MNC Bank under Non-Current Liabilities heading

**1 mark –** Capital

**1 mark –** Profit

**1 mark –** Drawings

**1 mark deducted** – incorrect formatting / no Total Equities label and calculation

**(providing no mark deducted in Q1C)**

**Question 2 – Rick’s Rugs (12 marks)**

1. **Prepare the Cash Flow Statement for the month ending 30 June 2020.**

**Rick’s Rugs**

**Cash Flow Statement for the month ended 30 June 2020**

**9 marks**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Cash Flow from Operating Activities** |  |  |
| Cash Sales | 3 500 |  |
| GST Collected | 350 |  |
| Receipts from Accounts Receivable | 4 312 |  |
| Freight Inwards | (330) |  |
| Advertising | (400) |  |
| Rent | (1 500) |  |
| Purchase of Inventory | (4 800) |  |
| Wages | (3 500) |  |
| GST Settlement | (774) |  |
| Payments to Accounts Payable | (2 200) |  |
| Interest | (400) |  |
| GST Paid | (3 903) |  |
| **Net Cash from Operations** |  | (9 645) |
| **Cash Flow from Investing Activities** |  |  |
| Purchase of Van | (32 000) |  |
| **Net Cash from Investing Activities** |  | (32 000) |
| **Cash Flow from Financing Activities** |  |  |
| Capital | 15 000 |  |
| Loan Borrowings – MNC Bank | 20 000 |  |
| Drawings | (3 000) |  |
| Loan Repayments – MNC Bank | (750) |  |
| **Net Cash from Financing Activities** |  | 31 250 |
| **Net Increase (Decrease) in Cash** |  | (10 395) |
| **Bank Balance – 1 June 2020** |  | 6 240 |
| **Bank Balance – 30 June 2020** |  | 4 155 |

**1 mark –** Cash Sales and GST Clearing

**1 mark –** GST Paid

**1 mark –** per any 3 Operating Activities items (3 marks in total)

**1 mark –** Equipment

**1 mark –** Financing inflows **1 mark –** Financing outflows **1 mark –** final 3 lines

1. **With the use of an example, explain to Rick how the Cash Flow Statement reported a negative Net Cash Flows from Operations but the Income Statement reported a Net Profit for June 2020.**

**3 marks**

The Cash Flow Statement reported a negative Net Cash from Operations as the cash outflows relating to the day-to-day trading activities of buying and selling inventory and paying expenses were greater than the cash inflows. **(1 mark)**

The Income Statement reported a Net Profit from the month ended 30 June 2020 as the revenues earned were greater than the expenses incurred. **(1 mark)**

A possible reason for this could have been due to the purchases of inventory decreasing Net Cash from Operations by more than the amount of Cost of Sales reported in the Income Statement. **(1 mark)**

**Question 3 – Kevin’s Keyboards (5 marks)**

1. **Discuss whether Kevin’s Keyboards may report a higher or lower Gross Profit in the Income Statement for the year ended 30 June 2020.**

**3 marks**

**Teacher Advice:** Student responses should be marked globally. Although, students do need to identify that although the Gross Profit Margin declined, there is the possibility that the Gross Profit is higher should the number of units sold increase.

***Sample answer:*** *The decline in the Gross Profit Margin initially indicates that Gross Profit reported in the Income Statement for the year ended 30 June 2020 could be lower than for the previous period. A decrease in the Gross Profit Margin has worsened profitability as for every $1 of sales in 2020 the business retained 45 cents compared to 55 cents in 2019. If the number of units sold remain roughly the same in 2020 compared to 2019, the Gross Profit reported in the Income Statement for the year ended 30 June 2020 would be lower. However, this may be due to Kevin’s Keyboards reducing their selling prices. The potential benefit of reducing the selling prices and the resulting decrease in the Gross Profit Margin could have seen an increase in the number of units sold and therefore a higher Gross Profit.*

1. **State one other benchmark Kevin could use to assess the performance of his business.**

**1 mark**

* Budget
* Industry Averages

1. **State one non-financial indicator Kevin could use to assess the performance of his business.**

**1 mark**

* customer satisfaction surveys / number of repeat customers
* number of sales returns / quality of products
* number of hits on business website

**END OF SUGGESTED SOLUTIONS**