****

**ACCOUNTING**

**Unit 3 Examination**

**MARKING GUIDE**

**Question 1** [16 marks]

*Tennis Gear Direct* has been purchasing inventory to expand the range of products it sells. Below is a list of purchases made for March 2024.

5 March 20 Elite Tennis Rackets for $165 each (including GST).

11March 14 Basic Tennis Rackets for $55 each (including GST)

14March 35 Excel Tennis Rackets for $110 each (including GST)

17 March 12 Basic Tennis Rackets for $33 each (including GST)

21March 17 Elite Tennis Rackets for $220 each (including GST)

25March 30 Basic Tennis Rackets for $88 each (including GST)

Additional information:

* Due to cash flow concerns, all purchases after 15th March were made on credit.
* The business uses the First in, First Out method
* On 24th March, 3 Basic Tennis Rackets were brought home by the owner for his children to have
* On 27th March, suppliers were paid an instalment of $800.

1. Fill in the inventory cards for the Elite Tennis Rackets and the Basic Tennis Rackets. Details are not required. 5 marks

**1 mark – correct entries for “Elite Tennis Rackets”**

**4 marks – correct entries for “Basic Tennis Rackets” (1 mark per entry)**

**Note: more marks allocated for second inventory card due to greater complexity and entries**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Inventory item: Elite Tennis Rackets Location: Aisle 7  Inventory code: ETR091 Supplier: GetNow Sports Supplies | | | | | | | | | | |
| **Date** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| March 5 |  | 20 | 150 | 3 000 |  |  |  | 20 | 150 | 3 000 |
| March 21 |  | 17 | 200 | 3 400 |  |  |  | 20 | 150 | 3 000 |
|  |  |  |  |  |  |  |  | 17 | 200 | 3 400 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Inventory item: Basic Tennis Rackets Location: Aisle 9  Inventory code: BTR091 Supplier: GetNow Sports Supplies | | | | | | | | | | |
| **Date** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| March 11 |  | 14 | 50 | 700 |  |  |  | 14 | 50 | 700 |
| March 17 |  | 12 | 30 | 360 |  |  |  | 14 | 50 | 700 |
|  |  |  |  |  |  |  |  | 12 | 30 | 360 |
| March 24 |  |  |  |  | 3 | 50 | 150 | 11 | 50 | 550 |
|  |  |  |  |  |  |  |  | 12 | 30 | 360 |
| March 25 |  | 30 | 80 | 2 400 |  |  |  | 11 | 50 | 550 |
|  |  |  |  |  |  |  |  | 12 | 30 | 360 |
|  |  |  |  |  |  |  |  | 30 | 80 | 2 400 |

1. Fill in the rest of the ledger accounts for Accounts Payable and Bank in relation to all purchases and the additional information. 6 marks

**3 marks – correct entries for “Bank”**

**3 marks – correct entries for “Accounts Payable”**

**Bank (A)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
|  |  |  |  |  |  |
|  |  |  | March 5 | Inventory/GST Clearing | 3 300 |
|  |  |  | March 11 | Inventory/GST Clearing | 770 |
|  |  |  | March 14 | Inventory/GST Clearing | 3 850 |
|  |  |  | March 27 | Accounts Payable | 800 |

**Accounts Payable (L)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
|  |  |  |  |  |  |
|  |  |  | March 17 | Inventory/GST Clearing | 396 |
|  |  |  | March 21 | Inventory/GST Clearing | 3 740 |
|  |  |  | March 25 | Inventory/GST Clearing | 2 640 |
| March 27 | Bank | 800 |  |  |  |

1. The owner of *Tennis Gear Direct* has stated that his business’ cash purchases of inventory can be classified as expenses. In reference to one accounting assumption, explain whether this is accurate. 3 marks

**1 mark – reference to a relevant accounting assumption**

**2 marks – explanation about the accuracy (1 mark for a brief outline and/or accounting assumption is not sufficiently linked to the explanation)**

*Accounting assumption: accrual basis.*

*Such purchases of inventory, at the time of purchase, cannot be classified as expenses. This is because whether or not a transaction is an expense is based on the definition of ‘expense’ for accrual purposes. Specifically, expenses involve decreases in assets or increases in liabilities that result in decreases in owner’s equity, apart from distributions to the owner. A cash purchase of inventory will simply increase one asset (inventory) and decrease another asset (e.g.: Bank) by the same amount. There is no decrease of owner’s equity as a result, as there has not been a decrease in assets overall. Therefore it is not an expense.*

1. Through the use of an example in relation to *Tennis Gear Direct,* explain how the Identified Cost method can help ensure that owner’s equity is higher. 2 marks

**1 mark – use of a relevant example**

**1 mark – explanation about how this method can ensure that owner’s equity is higher**

*It can help ensure that owner’s equity is higher through ensuring the inventory drawings are made in reference to inventory items that are worth less. For instance, when the owner brought home 3 basic tennis rackets, the Identified Cost method would allow him to select the rackets that were worth $30 each, decreasing owner’s equity by $90. However, because the business was using the first in, first out method, it had to be recorded that three $50 rackets were taken home (as such items were purchased first by the business, before the $30 rackets), decreasing owner’s equity by $150. The Identified Cost method would allow for owner’s equity to have been higher by $60.*

**Question 2** [15 marks]

The following information relates to *John’s Jewelry Shop* for July 2024.

4 July A customer pays the amount owing for the purchase of a ring - $2 000 (ETF. 453)

12 July Payment of wages of $3 200 (ETF. 910)

19July A customer purchases a ring for $6 600 including GST (ETF. 410)

25 July Bank of Australia loan is paid down by $1 000 (ETF. 953)

27July A customer returns a ring worth $200 plus GST bought on credit on 1 July (Cr. note 501)

Additional information:

* The business has applied a $1 000 mark-up for products selling at $3 000 or above, and a $50 mark-up for products selling for less than $500.

An extract of the balance sheet as at 30 June 2024 is as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **$** | **$** |  | **$** | **$** |
| **Current assets** |  |  | **Current liabilities** |  |  |
| Bank | 10 000 |  | Loan – Bank of Australia | 4 000 |  |
| Accounts Receivable | 3 000 |  | GST payable | 500 |  |

1. Prepare the balance sheet extract for *John’s Jewelry Shop* as at 26th July 2024 4 marks

**4 marks – for each amount correctly listed (1 mark each)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **$** | **$** |  | **$** | **$** |
| **Current assets** |  |  | **Current liabilities** |  |  |
| Bank | 14 400 |  | Loan – Bank of Australia | 3 000 |  |
| Accounts Receivable | 1 000 |  | GST payable | 1 100 |  |

1. The following is an extract from the General Journal for *John’s Jewelry Shop.*

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit $** | **Credit $** |
| July 12 | Bank | 3 200 |  |
|  | Wages |  | 3 200 |
|  |  |  |  |

Write a correcting entry for the above, with a narration. Memo 16 was used to state the correction. 2 marks

**1 mark – correcting entry (details, debits, credits)**

**1 mark – appropriate narration**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit $** | **Credit $** |
| July 28 | Wages | 3 200 |  |
|  | Bank |  | 3 200 |
|  | Wages | 3 200 |  |
|  | Bank |  | 3 200 |
|  | Correcting entry – Bank incorrectly debited, and wages incorrectly credited (Memo 16) |  |  |

1. Prepare the General Journal entries for the transactions occurring on 4 July, 19 July, and 27 July. Narrations are not required. 4 marks

**1 mark – July 4 entry**

**1 mark – July 19 entry partially (at least half) correct**

**1 mark – July 27 entry partially (at least half) correct**

**1 mark – July 19 and July 27 entries completely correct**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit $** | **Credit $** |
| July 4 | Bank | 2 000 |  |
|  | Accounts Receivable |  | 2 000 |
| July 19 | Bank | 6 600 |  |
|  | Sales |  | 6 000 |
|  | GST Clearing |  | 600 |
|  | Cost of Sales | 5 000 |  |
|  | Inventory |  | 5 000 |
| July 27 | Sales returns | 200 |  |
|  | GST clearing | 20 |  |
|  | Accounts Receivable |  | 220 |
|  | Inventory | 150 |  |
|  | Cost of Sales |  | 150 |

1. Prepare part of the Income statement for *John’s Jewelry Shop* (for July 2024). 3 marks

**3 marks – Income Statement entries - sales, sales returns, and wages (1 mark each)**

**JOHN’S JEWELRY SHOP**

**Income Statement for July 2024**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Revenue** |  |  |
| Sales | 6 200 |  |
| Sales returns | 200 | 6 000 |
| **Other expenses** |  |  |
| Wages | 3 200 |  |

1. Explain how ethical considerations are relevant in relation to allowing customers to make credit purchases. 2 marks

**2 marks – explanation of the ethical considerations involved (1 mark for a brief outline)**

*Allowing customers to make credit purchases allow them to purchase jewelry at a time when they might not have sufficient personal funds to do so. As such, customers are able to obtain jewelry at a time convenient to them, and simply pay later. Through such transactions, employees can be more confident about the business’ long-term prospects due to revenue increasing, allowing for less stress about job security. However, credit purchases can be harmful to consumers who might make purchases they cannot properly afford to repay without significant hardship to their living standards.*

**Question 3** [21 marks]

*Terry’s Textbooks,* owned by Terry Readings,is a textbook supplier for primary and secondary school students. On 1 December 2023, $55 000 worth of textbooks (including GST) were purchased on credit from publishers to ensure that there was sufficient stock for the following school year. The credit terms are 30/10 n/90 for all such purchases. The business sells textbooks for double the amount it costs to obtain them. The following information concerns January 2024:

Textbook sales on credit (n/30) $44 000 (including GST)

Textbook sales through EFT $33 000 (including GST)

Rent paid $1 650 (including GST)

Wages paid $4 000

Purchase of photocopier via business debit card $3 300 (including GST)

Drawings $720

1. Calculate the discount revenue that *Terry’s Textbooks* would have been eligible for, and state the circumstance in which he would have been eligible for it. 2 marks

**1 mark – calculation of discount revenue**

**1 mark – stating the circumstance in which it could be received in this case**

*Terry’s Textbooks would have been eligible for $16 500 in discount revenue. He would be eligible to this through paying his supplier within ten days of 1st December 2023.*

1. Prepare a cash flow statement for *Terry’s Textbooks* for January 2024. 6 marks

**3 marks – Operations entries (1 mark for correctly stating operating areas, 1 mark for correct figures, 1 mark for correct subtotals & total)**

**1 mark – Investing entry**

**1 mark – Financing entry**

**1 mark – net increase (decrease) in cash position & bank balance at end**

**TERRY’S TEXTBOOKS**

**Cash Flow Statement for January 2024**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **CASH FLOWS FROM OPERATIONS** |  |  |
| Cash sales | 30 000 |  |
| GST received | 3 000 | 33 000 |
| Wages | (4 000) |  |
| Rent | (1 500) |  |
| GST paid | (450) | (5 950) |
| **Net Cash Flows from Operations** |  | 27 050 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** |  |  |
| Photocopier |  | (3 000) |
|  |  |  |
| **Net Cash Flows from Investing activities** |  | (3 000) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** |  |  |
| Drawings |  | (720) |
|  |  |  |
| **Net Cash Flows from Financing activities** |  | (720) |
| **Net Increase (Decrease) in cash position** |  | 23 330 |
| **Add Bank Balance at start (1 January 2024)** |  | 70 000 |
| **Bank Balance at end (31 January 2024)** |  | 93 330 |

1. Explain whether or not it would have been feasible for Terry to receive discount revenue. 3 marks

**1 mark – outline about when it can be feasible to receive discount revenue in general**

**1 mark – outline is in reference to this situation**

**1 mark – further explanation in reference to this situation**

*It would have been feasible if his cash position in December was sufficient for pay the supplier $38 500. This is how much he would have had to have paid the supplier to thereby receive the 30% discount on the $55 000. It is unclear if the business’ cash position would have been sufficient. We do know that at the start of January, the business had $70 000 in cash. This however might not have been true in the first half of December. Moreover, the significant number of inventory purchases in December were being made for the following school year, so it is debatable if he would have received many sales to increase his cash position in December. Even if he did receive some sales in December, it is possible that many of these were credit sales as was the case in January. Even if the cash position was not sufficient to pay early to receive the discount revenue, he could have applied for a loan to do so, and pay off the loan quickly with cash sales (or payments to accounts receivable) increasing in preparation for the new school year. A cash saving of $16 500 would be worthwhile for cash flow purposes.*

1. Explain two actions that Terry should consider that could result in his customers being a greater source of positive cash flow. 4 marks

**1 mark – stating one action**

**1 mark – explanation of that action**

**1 mark – stating another action**

**1 mark – explanation of that action**

*Terry could offer more favorable credit terms to his customers, through being willing to allow his business to have discount expense. At the moment, he simply gives customers 30 days to make their payment to accounts receivable. He could offer a discount to customers should they make their payment early, e.g.: a 10% discount for those who pay within ten days. This would allow for cash to be received sooner by his business, improving cash flow sooner. Another action Terry could take is to encourage non-credit sales. This could be done through also offering discounts to customers who do not make credit purchases. This would also allow for cash to be received by the business sooner, improving cash flow.*

1. Based on the above information, calculate *Terry’s Textbooks’* net profit for the month of January. 2 marks

Revenue – cost of goods sold = gross profit

(40 000 + 30 000) – ((40 000 + 30 000)/2) = 35 000

Gross profit – other expenses = net profit

35 000 – 1 500 – 4 000 = **$29 500**

**1 mark – workings shown**

**1 mark – correct net profit shown**

1. Through the use of two examples, distinguish between cash and profit. 4 marks

**2 marks – distinguishing in reference to one example (1 mark if this is not sufficiently articulated)**

**2 marks – distinguishing in reference to the other example (1 mark if this is not sufficiently articulated)**

**Note: Maximum of 2 marks if no examples are used; maximum of 3 marks if one example is used**

*Profit is what remains once revenue is deducted from expenses, whereas cash is the amount of funds available to use, which will increase or decrease based on cash flow. For example, the drawings of $720 from the business will decrease the business’ cash position by $720, but has no impact on the profit. It will not decrease profit, because it is not an expense. This is because the definition of expense for accrual purposes excludes drawings. For example, the textbook sales on credit will increase profit, due to the revenue (not through cash, but through the asset of accounts receivable increasing, leading to an increase in owner’s equity) being higher than the expenses associated with the cost of such goods sold. However, it will not increase the business’ cash position at the same time. This is because credit sales involve the transfer of inventory (to the customer) first, with the cash to be paid to the business on a later date.*

**Question 4** [30 marks]

*Computing Max* sells parts used in the manufacturing of laptops and other technological devices. The business orders them from a supplier for $220 each (including GST), plus delivery charges being $44 per batch of 10 (including GST). The business resells such parts based on a markup of $110. The Identified Cost method is used.

On 2October 2024, four parts got damaged due to a water leak at *Computing Max’s* warehouse. Owing to the damage, the net realizable value per item has been calculated to be $180.

The business owner has also recorded the following information applicable to October 2024:

3 October During a stock take, 12 extra machine parts were found (Memo 23)

12 October A customer returned 1 machine part before they had made payment for it (the part was purchased on 2nd October)

13October 30 machine parts were purchased on credit from suppliers (Inv. 321)

17 October A customer bought 50 machine parts through a credit card (delivery charges paid by us via EFT 101, $1 000 altogether + GST)

21 October Rent was paid of $2 000 plus GST (EFT. 902)

26 October Brought a printer worth $200 from home for the business to have (Memo 51)

28th October Wages of $4 300 were paid (EFT. 987)

Note: no customers purchased any of the damaged items.

1. Calculate the product cost for one part. 1 mark

**1 mark – calculation of the product cost**

*Product cost = (220 / 1.1) + ((44 / 1.1)/10) = 200 + 4 = $204*

1. Show the inventory write-down on the inventory card and on the general ledger. Details and narrations are not required. 2 marks

**1 mark – shown in inventory card**

**1 mark – shown in general ledger**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Inventory item: Machine Parts Location: Store rooms a, b, c  Inventory code: MP001 Supplier: M Supplies | | | | | | | | | | |
| **Date** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| 1 October | Balance |  |  |  |  |  |  | 150 | 204 | 30 600 |
| 2 October |  |  |  |  | 4 | 24 | 96 | 146 | 204 | 29 784 |
|  |  |  |  |  |  |  |  | 4 | 180 | 720 |

**General Ledger**

**Inventory (A)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
|  |  |  |  |  |  |
|  |  |  | Oct 2 | Inventory write-down | 96 |

**Inventory write-down (E)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
|  |  |  |  |  |  |
| Oct 2 | Inventory | 96 |  |  |  |

1. Discuss how inventory can be managed effectively to prevent the need for inventory write-downs. 4 marks

**2 marks – explanation about how inventory can be managed effectively to prevent inventory write-downs (1 mark for a brief outline and/or lack of reference to inventory write-downs)**

**2 marks – explanation about how inventory management might not sufficiently prevent inventory write-downs (1 mark for a brief outline and/or lack of reference to inventory write-downs)**

**Note: if one side of the discussion is answered in considerable detail, it can be awarded 3 marks; in which case, 1 mark is sufficient for the other side of the discussion**

*Inventory can be managed effectively through appointing an inventory manager who can ensure that inventory is placed in areas there is less chance of damage occurring. For instance, an inventory manager could make sure that the machine parts are stored in areas that are not prone to leaking. The inventory manager could also inform senior management about the suitability of storage areas for potential hazards – such as water leaks – to be rectified. That being said, inventory can still be damaged even in situations where an inventory manager co-ordinates inventory effectively. Sometimes it is inevitable that a small percentage of inventory could be damaged when being moved around or unpacked. It is also possible that inventory might not be sufficiently checked when unpacked from a supplier in situations where it should be returned due to it arriving damaged.*

1. Explain how inventory cards help foster one qualitative characteristic. 3 marks

**1 mark – stating a reason as to how**

**1 mark – outline of this reason**

**1 mark – further explanation of this reason**

*Inventory cards promote the qualitative characteristic of faithful representation through providing a written record about the value of inventory had by the business. Additionally, the inventory cards also provide information about the value of different categories of inventory, allowing a more complete picture to be available about what inventory is had. They allow a business to truthfully state the movements of inventory in and out of the business for various reasons, so a business can keep track of the precise nature of these movements along with when they occurred.*

1. Prepare the general journal entries and general ledger entries for 13 October and 17 October. 10 marks

**1 mark – General Journal 13 Oct entry**

**2 marks – General Journal first 17 Oct entry (1 mark if partially (at least half) correct)**

**2 marks – General Journal second 17 Oct entry (1 mark if partially (at least half) correct)**

**3 marks – General Ledger Inventory, GST Clearing, and Bank entries (1 mark each)**

**1 mark – General Ledger Accounts Payable and Cost of Sales entries**

**1 mark – General Ledger Sales and Freight Out entries**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit $** | **Credit $** |
| 13 Oct | Inventory | 6 120 |  |
|  | GST Clearing | 612 |  |
|  | Accounts Payable |  | 6 732 |
| 17 Oct | Bank | 17 270 |  |
|  | Sales |  | 15 700 |
|  | GST Clearing |  | 1 570 |
|  | Cost of Sales | 10 200 |  |
|  | Inventory |  | 10 200 |
| 17 Oct | Freight Out | 1 000 |  |
|  | GST Clearing | 100 |  |
|  | Bank |  | 1 100 |

**General Ledger**

**Accounts Payable (L)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
|  |  |  | 13 Oct | Inventory/GST Clearing | 6 732 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Inventory (A)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
| 13 Oct | Accounts Payable | 6 120 | 17 Oct | Cost of Sales | 10 200 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**GST Clearing (A or L)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
| 13 Oct | Accounts Payable | 612 | 17 Oct | Bank | 1 570 |
| 17 Oct | Bank | 100 |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Cost of Sales (E)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
| 17 Oct | Inventory | 10 200 |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Sales (R)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
|  |  |  | 17 Oct | Bank | 15 700 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Bank (A)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
| 17 Oct | Sales/GST Clearing | 17 270 | 17 Oct | Freight Out/GST Clearing | 1 100 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Freight Out (E)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
| 17 Oct | Bank | 1 000 |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

1. Prepare an Income Statement for October 2024. 10 marks

**7 marks – correct entries for Sales, Sales returns, Cost of sales, add inventory gain, less inventory write-down, rent expense, wages (1 mark each)**

**1 mark – calculation of subtotals where appropriate**

**1 mark – calculation of Gross Profit & Adjusted Gross Profit**

**1 mark – calculation of net profit**

**COMPUTING MAX**

**Income Statement for October 2024**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Revenue** |  |  |
| Sales | 15 700 |  |
| Sales returns | 314 | 15 386 |
| **Less Cost of Goods Sold** |  |  |
| Cost of sales | 10 200 | 10 200 |
|  |  |  |
| **Gross Profit** |  | 5 186 |
| add Inventory gain | 2 448 |  |
| less Inventory write-down | 96 | 2 352 |
| **Adjusted Gross Profit** |  | 7 538 |
| **less Other Expenses** |  |  |
| Rent expense | 2 000 |  |
| Wages | 4 300 | 6 300 |
|  |  |  |
| **Net Profit** |  | 1 238 |

**Question 5** [8 marks]

A clothing retailer has prepared its Income Statement for June 2024, and has derived the following information from it.

*Net profit margin* 8.5 % [6 000 / 65 000]

*Gross profit margin* 49% [32 000 / 65 000]

1. Explain why the net profit margin is often less than the gross profit margin. Give examples of different types of expenses in your answer. 3 marks

**1 mark – outline about why**

**1 mark – explanation of why**

**1 mark – use of examples in answer**

*A profit margin involves calculating the percentage of revenue retained as profit. The net profit margin is often less than the gross profit margin because of more expenses being factored in through the net profit margin. The gross profit is calculated only through subtracting expenses to do with the cost of goods sold, which are expensed directly to do with getting inventory into a state and location ready for sale. However, net profit is calculated through also subtracting other expenses such as rent, wages, advertising etc. Therefore, net profit tends to be lower than gross profit, making the margin lower. For instance, for the clothing retailer, $32 000 is remaining for the business after the cost of sales is subtracted from revenue, which is 49% of the total revenue. However, when that clothing retailer factors in other expenses as well, the amount of revenue remaining as net profit is only $6 000, which is 8.5% of total revenue.*

1. Outline a strategy that could further improve the gross profit margin, and discuss an ethical consideration associated with this. 5 marks

**1 mark – outline of a strategy**

**2 marks – how an ethical consideration could render the strategy unethical (1 mark for a brief outline and/or lack of reference to this situation)**

**2 marks – how an ethical consideration could render the strategy ethical (1 mark for a brief outline and/or lack of reference to this situation)**

**Note: if one side of the discussion is answered in considerable detail, it can be awarded 3 marks; in which case, 1 mark is sufficient for the other side of the discussion**

*The gross profit margin could be improved through finding suppliers which sell inventory at a lower price. This could lower the cost of goods sold, leading to a higher gross profit. One ethical consideration involved in this relates to whether such suppliers are committed to treating their employees in an ethical manner in terms of good working conditions and sufficient pay. It is possible that such suppliers can sell inventory at a lower price because they are saving money by not giving their employees proper entitlements. Therefore, purchasing from such suppliers poses the ethical dilemma of enabling such suppliers to continue in their unethical practices. That being said, some suppliers might sell inventory at a low price due to being organized in keeping operating expenses low through ethical means. Moreover, through using cheaper suppliers, it means that the clothing retailer could sell clothing items to customers at a cheaper price, thereby enabling customers to afford the items they desire.*

**Question 6** [10 marks]

A retailer of gardening tools is in the process of evaluating its management of accounts payable. The following information is being considered:



Note: the first column for each year refers to accounts payable turnover, and the second column refers to credit terms.

1. Explain whether or not this business has been meeting its obligation towards creditors. 2 marks

**1 mark – brief outline about whether the business is meeting its obligation**

**1 mark – further explanation as to how/why (must contain reference to the graphical material)**

*For the most part, the gardening tools retailer is meeting its obligations towards creditors. From 2020 to 2023, accounts payable is paid before or by the due date. In 2024, the average time to make payment slightly surpasses the credit terms, but only slightly.*

1. Explain one advantage and one disadvantage of paying creditors just before the due date.

4 marks

**2 marks – explanation of one advantage (1 mark for a brief outline)**

**2 marks – explanation of one disadvantage (1 mark for a brief outline)**

*One advantage is that it will enable the business to retain cash for a longer period of time. This can mean there are more funds to help pay for other cash expenses. Alternatively, such funds could be held in a bank account and generate some interest revenue for a longer period of time. One disadvantage is the business could miss out on discount revenue. That is, through paying early, the business might be able to get a discount on the amount owed. This increases the business’ profit. However, by paying just before the due date, discount revenue is unlikely to apply, as it is used as a way to encourage payments significantly earlier.*

1. State a risk that this business could have in future years, and explain a recommendation that this business could consider to mitigate this risk. 4 marks

**1 mark – stating a risk**

**1 mark – stating a recommendation**

**1 mark – further outline of this recommendation**

**1 mark – further explanation of this recommendation (must contain reference to the graphical material)**

*In future years, this business runs the risk of not paying its creditors on time. Overall, from 2020 to 2024, there has been a trend increase in the amount of time it has taken to pay accounts payable. One way to mitigate this issue is to appoint an accounts payable officer who will be in charge of coordinating payments to accounts payable. Through someone having direct oversight over the issue, it is likely that payments will be made in a timelier manner. This is distinct from having others – e.g.: the owner – with other roles in the business also trying to co-ordinate such payments. As a result, from 2024 onwards, one could expect a trend decrease in the amount of time taken to make payments to accounts payable, if such an officer is appointed.*