

# 2022 VCE Accounting (NHT) external assessment 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.

#### Inventory Card

| Item: Ruby candle |          | Cost Assignment Method: FIFO |      |       |     |      |       |         |      |       |
|-------------------|----------|------------------------------|------|-------|-----|------|-------|---------|------|-------|
| Supplier: WixAway |          | IN                           |      |       | OUT |      |       | BALANCE |      |       |
| Date<br>2022      | Document | Qty                          | Cost | Total | Qty | Cost | Total | Qty     | Cost | Total |
| Mar. 1            | Inv 324  | 25                           | 15   | 375   |     |      |       | 25      | 15   | 375   |
| 4                 | Inv. 123 |                              |      |       | 14  | 15   | 210   | 11      | 15   | 165   |
| 8                 | Inv. 544 | 30                           | 16   | 480   |     |      |       | 11      | 15   |       |
|                   |          |                              |      |       |     |      |       | 30      | 16   | 645   |
| 10                | Rec 68   |                              |      |       | 11  | 15   |       |         |      |       |
|                   |          |                              |      |       | 4   | 16   | 229   | 26      | 16   | 416   |
| 13                | Memo 6   |                              |      |       | 5   | 16   | 80    | 21      | 16   | 336   |
| 19                | Inv 655  | 40                           | 14   | 560   |     |      |       | 21      | 16   |       |
|                   |          |                              |      |       |     |      |       | 40      | 14   | 896   |
| 23                | CrN16    | 6                            | 16   | 96    |     |      |       | 27      | 16   |       |
|                   |          |                              |      |       |     |      |       | 40      | 14   | 992   |
| 31                | Memo 7   | 2                            | 16   | 32    |     |      |       | 29      | 16   | 464   |
|                   |          |                              |      |       |     |      |       | 40      | 14   | 1 008 |

## Question 1b.

The delivery cost would be included as part of the unit cost of inventory purchased.

It is a product cost, as it is part of the cost of bringing the inventory into a location ready for sale and can be directly associated with each unit (\$40 for 40 units = \$1 per unit). The cost is added to the invoiced cost of \$13 per unit and is recorded at the cost price of \$14 for each ruby candle.

## Question 2a.

The source document is a Credit Note.

## Question 2b.

### General Journal

| <b>Date</b><br><b>2022</b> | <b>Details</b>       | <b>Debit</b><br><b>\$</b> | <b>Credit</b><br><b>\$</b> |
|----------------------------|----------------------|---------------------------|----------------------------|
| 31/1                       | Inventory Write-Down | 2 000                     |                            |
|                            | Inventory            |                           | 2 000                      |

## Question 2c.

Inventory is valued at lower of cost and net realisable value to ensure the asset is not overvalued in the Balance Sheet.

Net realisable value is only used when it is estimated that an inventory item on hand at the end of a period will not realise its cost price when it is finally sold (for example, if it is damaged or obsolete).

It brings forward the recognition of the potential loss to the current period when the loss is identified to comply with the accrual basis assumption.

Valuing other inventory on hand at cost price ensures that profit will only be recognised in the period when inventory is sold.

## Question 2d.

### General Ledger

#### Inventory

| Date   | Cross-reference  | Amount  | Date   | Cross-reference      | Amount  |
|--------|------------------|---------|--------|----------------------|---------|
| Jan 1  | Balance          | 46 000  | Jan 31 | Accounts Payable     | 7 000   |
| Jan 31 | Accounts Payable | 260 000 |        | Cost of Sales        | 250 000 |
|        | Cost of Sales    | 6 000   |        | Inventory Write-Down | 2 000   |
|        |                  |         |        | Balance              | 53 000  |
|        |                  | 312 000 |        |                      | 312 000 |
| Feb 1  | Balance          | 53 000  |        |                      |         |

## Question 2e.

### Electrix Warehouse

#### Income Statement (extract) for the month ended 31 January 2022

|                               | \$      | \$      |
|-------------------------------|---------|---------|
| Revenue                       |         |         |
| Sales                         | 500 000 |         |
| Less Sales Returns            | 12 000  | 488 000 |
| Less Cost of Sales            |         | 244 000 |
| Gross Profit                  |         | 244 000 |
| Less Inventory Write-Down (c) |         | 2 000   |
| Adjusted Gross Profit         |         | 242 000 |

## Question 3a.

### Existing Sales and Cost of Sales

|               | Working Space                  | Amount    |
|---------------|--------------------------------|-----------|
| Sales         | $200 * 7 * \$4 * 52$           | \$291 200 |
| Cost of Sales | $200 * 7 * (0.42 + 0.09) * 52$ | \$37 128  |
| Gross Profit  |                                | \$254 072 |

Assuming recyclable cups and lids and fair-trade coffee are used and there is a 10% increase in sales

|               | Working space         | Amount    |
|---------------|-----------------------|-----------|
| Sales         | $220 * 7 * \$4 * 52$  | \$320 320 |
| Cost of Sales | $220 * 7 * 0.62 * 52$ | \$49 650  |
| Gross Profit  |                       | \$270 670 |

Assuming recyclable cups and lids and fair-trade coffee are used but there is no increase in sales

|               | Working space         | Amount    |
|---------------|-----------------------|-----------|
| Sales         | $200 * 7 * \$4 * 52$  | \$291 200 |
| Cost of Sales | $200 * 7 * 0.62 * 52$ | \$45 136  |
| Gross Profit  |                       | \$246 064 |

## Question 3b.

Ethical business issues revolve around whether business decisions should be based on broader environmental or social aspects or just on potential financial implications. The single-use cups are cheaper, but they create litter and disposal issues both at the station and when considering waste and recycling. The recyclable cups are more expensive, so may reduce profit, and are made overseas, possibly at the expense of local jobs.

The fair-trade coffee beans are more expensive, which increases costs and potentially reduces profits, but could make a difference to the working conditions of workers where they are grown and processed.

The offer of a personal commission to the accountant would conflict with the accountant's duty to act with integrity. Any such commission should be disclosed and directed to the business.

When assessing this question, the following marking scale was used.

| Marks | Criteria   |
|-------|--|
| 5–6   | Detailed understanding of financial and ethical implications of decisions made by a business owner<br>Comprehensive discussion of the positive and negative implications of decisions made by a business owner<br>Accurate use of correct accounting terminology and discussion of the implications on the impact on the performance of the business |
| 3–4   | Demonstrated an understanding of financial and ethical implications of decisions made by a business owner.<br>Referred to both positive and negative implications of decisions made by a business owner<br>General use of correct accounting terminology and reference to the implications on the impact on the performance of the business          |
| 1–2   | Basic, if any, reference to ethical and/or financial considerations<br>Identifies at least one ethical issue<br>Identifies at last one financial issue   |
| 0     | Displays no knowledge of ethical and financial issues  |

## Question 4a.

### General Journal

| Date<br>2022 | Details                      | Debit<br>\$ | Credit<br>\$ |
|--------------|------------------------------|-------------|--------------|
| 31/3         | Allowance for Doubtful Debts | 6 000       |              |
|              | GST Clearing                 | 600         |              |
|              | Accounts Receivable          |             | 6 600        |
| 31/3         | Bad Debts                    | 10 000      |              |
|              | Allowance for Doubtful Debts |             | 10 000       |

## Question 4b.

### VIMT Furniture

#### Balance Sheet (extract) as at 31 March 2022

|                                   | \$      | \$      |
|-----------------------------------|---------|---------|
| Current Assets                    |         |         |
| Accounts Receivable               | 125 400 |         |
| Less Allowance for Doubtful Debts | 12 000  | 113 400 |

## Question 4c.

**Benefit:** Creating an allowance for doubtful debts ensures the Balance Sheet reports the expected realisable amount of Accounts Receivable. This is considered to enhance relevance as it improves decision-making by recognising that not all Accounts Receivable are expected to be collected. This method also recognises Bad Debts in the same period as the Credit Sales revenue from which they arose. This results in profit better reflecting the performance of the business for that period, which again provides more relevant information to users.

**Limitation:** The main limitation of this method is that it relies on estimates to be made of the likely percentage of Net Credit Sales that will not be collected. To some extent, this makes the reports less reliable as there is no supporting documentary evidence. This suggests it conflicts with the qualitative characteristics of faithful representation and verifiability as it is not neutral; independent observers may not come to a consensus that the bad debts were accurately recorded.

## Question 5a.

### General Journal

| <b>Date<br/>2022</b> | <b>Details</b>       | <b>Debit<br/>\$</b> | <b>Credit<br/>\$</b> |
|----------------------|----------------------|---------------------|----------------------|
| 31/3                 | Bank                 | 48 000              |                      |
|                      | Loan – Nifty Finance |                     | 48 000               |
|                      | Vehicle              | 500 000             |                      |
|                      | GST Clearing         | 5 000               |                      |
|                      | Bank                 |                     | 55 000               |
| 31/3                 | Vehicle              | 7 000               |                      |
|                      | Bank                 |                     | 7 000                |
| 31/3                 | Bank                 | 48 000              |                      |
|                      | Loan – Nifty Finance |                     | 48 000               |
| 31/3                 | Vehicle              | 43 000              |                      |
|                      | GST Clearing         | 5 000               |                      |
|                      | Bank                 |                     | 48 000               |

## Question 5b.

### Jaimie's Stationery

#### Cash Flow Statement for the month ending 31 March 2022

|  |          |                 |
|--|----------|-----------------|
| <b>Cash Flow from Operating Activities</b> |          |                 |
| Cash Sales                                 | 36 000   |                 |
| Accounts Receivable                        | 59 000   |                 |
| GST received                               | 4 900    | 99 900          |
| Accounts Payable                           | (42 000) |                 |
| Wages paid                                 | (26 000) |                 |
| Rent paid                                  | (6000)   |                 |
| GST paid                                   | (5600)   | (79 600)        |
| <b>Net Cash from Operating Activities</b>  |          | <b>20 300</b>   |
| <b>Cash Flow from Investing Activities</b> |          |                 |
| Proceeds – sale of vehicle                 | 13 000   |                 |
| Vehicle                                    | (50 000) |                 |
| <b>Net Cash from Investing Activities</b>  |          | <b>(37 000)</b> |
| <b>Cash Flow from Financing Activities</b> |          |                 |
| Loan received                              | 48 000   |                 |
| Drawings                                   | (9 000)  | 39 000          |
| <b>Net Cash from Financing Activities</b>  |          | <b>39 000</b>   |
|  |          |                 |
| <b>Net Increase in Cash Position</b>       |          | <b>22 300</b>   |
| <b>Bank Balance at 1st March 2022</b>      |          | <b>(2 300)</b>  |
| <b>Bank Balance at 31st March 2022</b>     |          | <b>20 000</b>   |



## Question 5c.

Net Cash and Net Profit are different concepts. Net Cash is determined by subtracting cash payments from cash receipts, while Net Profit is calculated under accrual accounting by subtracting expenses incurred from revenues earned. A loss can be generated by expenses that do not involve cash outflows and Net Cash will increase whenever total receipts exceed total payments and may occur irrespective of a profit or loss being reported.

- Cash proceeds of \$13 000 from the disposal of the vehicle increased the cash balance, while the loss on disposal of \$8 000 has contributed to the loss.
- Credit Sales for March were \$54 000 and contributed to the loss; however, collections from Accounts Receivable were \$59 000, which increased the bank balance.
- Rent expense was \$15 000 and contributed to the loss; however, only \$6 000 cash was paid in the period due to the prepayments made in previous periods, so the cash effect was much less.
- Wages expense of \$27 000 was greater than wages paid of \$26 000. No accrued wages at the start of the period.

## Question 5d.

The receivables and payables turnover trends will both have an adverse effect on cash flow:

- receivables are taking longer to pay, while the business is paying payables faster
- credit terms are n/30, so there is no reason to be reducing average payment times to below 30 days.

Cash is being paid out more quickly than necessary at a time when cash is taking longer to collect from receivables. The receivables turnover should also be assessed against industry averages, and it could be considered whether the change from 38 days to 43 days has come from a deliberate loosening of credit, which may have positively impacted revenue by attracting more customers.

Inventory turnover has fallen from 85 to 80 days, which is considered a favourable trend. It results in cash being held in inventory for a shorter period, which would normally provide a boost to cash flow:

- If it was caused by increased sales while holding the same level of inventory, it is a positive result.
- If it was caused by decreasing inventory levels and possibly reducing the range and inventory mix, it may impact sales volume and ultimately adversely affect future cash flows.

## Question 6

The additional borrowed funds have not been utilised any more efficiently than in 2020. The Return on Assets shows that every dollar of assets is still generating the same amount of profit. For every dollar of assets the business has at its disposal, it is able to generate 14 cents of Net Profit, which is similar to the industry average of 15 cents.

The Return on Investment shows the return to the owner for every dollar of capital invested. In this case, every dollar invested by the owner is generating 21% (or 21 cents) of profit, up from 15 cents in 2020 and now exceeding the industry average of 18 cents. This means that the owner has benefited from the borrowing as there is additional profit accruing to them.

The debt ratio has risen significantly by 59%, and is now well above industry average. The debt ratio shows the proportion of business assets contributed by external parties (that is, liabilities). It shows that more than a third of business assets have been provided by external parties in 2021, compared to less than a quarter in 2020 and an industry average of 20%.

High debt levels are seen to increase financial risk; interest payments and repayment of principal tighten future cash flow planning, as these payments must be made irrespective of the prevailing economic climate.

If the debt ratio exceeds acceptable benchmarks, banks and other lenders can refuse to provide further lending or even call in existing loans.

Overall, the borrowing has led to an increase in the return to the owner but at a significant increase in financial risk.

When assessing this question, the following marking scale was used.

| Marks | Criteria   |
|-------|--|
| 5–6   | <p>Detailed understanding of financial indicators</p> <p>The effect of the additional borrowing on business performance and financial indicators</p> <p>Both the positive and negative effects of the borrowed funds on the financial indicators</p> <p>Reference to all indicators and information provided</p> <p>Accurate use of accounting terminology and discussion of the implications on the impact on the performance of the business</p> |
| 3–4   | <p>Made the connections between the indicators provide</p> <p>Demonstrated an understanding of financial implications of decisions made by a business owner</p> <p>Referred to both positive and negative implications of decisions made by a business owner</p> <p>General use of correct accounting terminology and reference to the implications on the impact on the performance of the business</p>   |
| 1–2   | Basic reference to trends in financial indicators or the effects of borrowing on business performance  |
| 0     | Displays no knowledge of financial indicators  |

## Question 7a.

Line A: Carrying Value

Line B: Accumulated Depreciation

Line C: Depreciation Expense

## Question 7b.

### General Journal

| Date<br>2022 | Details                                     | Debit<br>\$ | Credit<br>\$ |
|--------------|---|-------------|--------------|
| 31/7         | Depreciation – Office Furniture             | 300         |              |
|              | Accumulated Depreciation – Office Furniture |             | 300          |
| 31/7         | Disposal of Office Furniture                | 30 000      |              |
|              | Office Furniture                            |             | 30 000       |
| 31/7         | Accumulated Depreciation – Office Furniture | 21 900      |              |
|              | Disposal of Office Furniture                |             | 21 900       |
| 31/7         | Bank  | 3 850       |              |
|              | Disposal of Office Furniture                |             | 3 500        |
|              | GST Clearing                                |             | 350          |
| 31/7         | Loss on Disposal of Office Furniture        | 4 600       |              |
|              | Disposal of Office Furniture                |             | 4 600        |
| 31/7         | Office Furniture                            | 23 000      |              |
|              | GST Clearing                                | 2 300       |              |
|              | Bank  |             | 25 300       |

## Question 7c.

The non-current asset value will be reduced because the accumulated depreciation of the non-current asset will increase, which will reduce the carrying value. The Owner's Equity will decrease as a result of the increase in depreciation expense, which will decrease net profit and capital.

## Question 7d.

Accounting Assumption. Going Concern

Financial reports are prepared on the assumption that the business will continue to operate into the future. It is assumed the business will not be wound up but will continue its activities. This means that the office furniture should be depreciated over its estimated useful life.

## Question 8

| Date<br>2022 | Details                | Debit<br>\$ | Credit<br>\$ |
|--------------|------------------------|-------------|--------------|
| 14/3         | Bank                   | 4 000       |              |
|              | Unearned Sales Revenue |             | 4 000        |
| 15/5         | Bank                   | 5 900       |              |
|              | Unearned Sales Revenue | 4 000       |              |
|              | Sales                  |             | 9 000        |
|              | GST Clearing           |             | 900          |
|              | Cost of Sales          | 4 500       |              |
|              | Inventory              |             | 4 500        |

## Question 9a.

|                      | Budget<br>(\$) | Actual (\$) | Variance (\$) | Fav/Unfav |
|----------------------|----------------|-------------|---------------|-----------|
| Net Sales            | 131 000        | 122 000     | 9 000 ▼       | Unfav     |
| Cost of Sales        | 50 400         | 50 300      | 100 ▼         | Fav       |
| Gross Profit         | 80 600         | 71 700      | 8 900 ▼       | Unfav     |
| <b>Less Expenses</b> |                |             |               |           |
| Advertising          | 8 000          | 5 000       | 3 000 ▼       | Fav       |

## Question 9b.

There has been an unfavourable variance in net sales of \$9,000, although there is only \$100 decrease in Cost of Sales. Reasons for this could include inventory costing more with virtually no increase in selling prices leading to a decline in gross profit.

The favourable variance advertising of \$3,000 resulted in a reduction in expenses and has a positive increase in net profit. Reasons could include better deals or deliberate reduction in the amount of advertising, or moving to lower-cost options such as online over printed materials. The decrease in advertising could also be due to a deliberate decision to reduce advertising spend, which could have resulted in a decrease in sales.