Exercise 1.1 Accounting Assumptions

a

Accounting Assumption	*Accounting Entity*
Explanation	*The business is assumed to be an entity separate from the owner*
	and other businesses, and its records should be kept on this basis. The
	orthodontist fees are a personal expense of the owner, not the business,
	and therefore do not reduce the firm's Owner's Equity.

b

Accounting Assumption	*Going Concern*
Explanation	*Financial reports are prepared on the assumption that the business will*
	continue to operate indefinitely. The credit purchase of inventory will lead to
	the recognition of an Accounts Payable, which can then be recorded as a
	Current Liability as the amount will be paid by the business in the future.

c

Accounting Assumption	*Period*
Explanation	*The life of the business is divided into arbitrary periods to allow for reports to*
	be prepared.
	According to tax requirements, reports must be prepared at least yearly.

d

Accounting Assumption	*Accrual*
Explanation	*In order to calculate an accurate net profit, revenues should be recognised*
	when they are earned, and expenses when they are incurred. The revenue
	should be recorded when the sale occurred, and the goods were transferred,
	not when the cash was received.

e

Accounting Assumption	
Explanation	

f

Accounting Assumption	*Accounting Entity*
Explanation	*The business is assumed to be an entity separate from the owner*
	and other businesses, and its records should be kept on this basis.
	Casee has used her personal funds for a business expense, so this
	represents a transaction between two separate entities.

g

Accounting Assumption	*Accrual*
Explanation	*In order to calculate an accurate net profit, revenues should be recognised*
	when they are earned, and expenses when they are incurred. The revenue
	should be recorded when the goods are transferred to the customer, not on
	the receipt of the deposit, which rather, is recorded as a Current Liability.

Exercise 1.2 Qualitative Characteristics

a

Qualitative Characteristic	*Relevance*
Explanation	*Any transaction that is capable of affecting decision making must be recorded. The withdrawal of business cash to fund a personal expense is relevant to the entity and should be recorded as Drawings to ensure that the Owner's Equity of the business is not overstated.*

b

Qualitative Characteristic	*Verifiability*
Explanation	*The premises should be valued at its original purchase price as this value is verifiable by a source document. By recording the premises at this value, the financial information will allow different knowledgeable and independent observers to be assured that it is faithfully represented.*

c

Qualitative Characteristic	*Comparability*
Explanation	*If a business uses consistent reporting periods, this allows for the direct comparison of financial information from one period to the next. This comparison will then inform decision making by interested users of the financial reports.*

d

Qualitative Characteristic	*Verifiability OR Faithful Representation*
Explanation	*All expenses should be recorded at values that are verifiable by a source document. By recording the electricity at an estimated and biased value, the financial information will not allow different knowledgeable and independent observers to be assured that it is faithfully represented.*

e

Qualitative Characteristic	*Timeliness*
Explanation	*Financial information should be available to decision makers in time to be*
	capable of influencing their decisions. Given that inventory losses indicate
	concerns over inventory/stock management, knowing of their occurrence in a timely
	manner will allow for more urgent investigation and corrective action.

f

Qualitative Characteristic	*Understandability*
Explanation	*Financial information should be presented in a manner that makes it*
	readily understandable by users who have a reasonable knowledge of
	business and economic activities. The accountant should be mindful to
	refrain from using overly technical language.

g

Qualitative Characteristic	*Faithful Representation*
Explanation	*The selling price is an estimate of what the inventory may be sold for, and*
	there is no guarantee that this will eventuate. Recording the inventory at its
	selling price would therefore overstate the value of the asset, making the
	financial information not free from bias or material error.

h

Qualitative Characteristic	*Relevance OR Faithful Representation*
Explanation	*The revenue should be recorded when the sale occurred in 2024, not when*
	the cash will be received in 2025. By including the revenue in the relevant
	period, accurate decisions and predictions can be made off information that
	is faithfully represented and free from bias or material error.

Exercise 1.3 Accounting Assumptions and Qualitative Characteristics

a

Accounting Assumption	*Accounting Entity*
Explanation	*The business is assumed to be an accounting entity separate from the owner*
	and other businesses, and its records should be kept on this basis. The
	holiday is an expense of the owner, not an expense of the business, and
	therefore does not represent a reduction to the firm's Owner's Equity.

b

Explanation	*The reports will not contain all the information that is useful for decision-*
	making because they will not show the owner's Drawings.

Exercise 1.4 Qualitative Characteristics

a

Explanation	*The inventory should be valued at its original purchase price as this value is*
	verifiable by a source document. By recording the inventory at this value,
	the financial information will allow different knowledgeable and independent
	observers to be assured that it is faithfully represented.

b

Explanation	*The selling price is an estimate of what the inventory may be sold for, and*
	there is no guarantee that this will eventuate. Recording the inventory at its
	selling price would therefore overstate the value of the asset, making the
	financial information not free from bias or material error.

Exercise 1.5 Qualitative Characteristics

a

Explanation	*If a business uses consistent accounting methods between different periods,*
	this allows for the direct comparison of financial information from one period
	to the next. Results can then be linked to performance, not just differences in
	accounting methods. This comparison will then inform decision making.

b

Explanation	*Comparability refers to the consistent use of methods to allow for comparison*
	between accounting periods. It doesn't mean that identical amounts should be
	reported from one period to the next. The amount recorded as Depreciation
	may differ each period if NCA are disposed or Reducing Balance is used.

Exercise 1.6 Accounting Assumptions and Qualitative Characteristics

a

Explanation	*Going Concern*

b

Explanation	*Financial information must be relevant so that users of the reports can be*
	assured that the amounts reported are complete, free from material error and
	neutral. The market value represents what an external third party values the
	business as worth, and will not be realised until the business is sold.

Exercise 1.7 Accounting Assumptions and Qualitative Characteristics

a

Qualitative Characteristic	*Understandability*
Explanation	*Financial information should be presented in a manner that makes it*
	readily understandable by users who have a reasonable knowledge of
	business and economic activities. As the employees have limited accounting
	knowledge, the reports will not fulfil their intended function.

b

Explanation	*The employees are dependent on the long-term survival and viability of their*
	employer for their livelihoods. If the business is in financial trouble, the
	employees should be aware and informed so that they are able to make
	any necessary arrangements to protect their own and their families' future.

c

Explanation	*Use of graphs; plain language reports; explanatory notes;*
	Information sessions; headings and columns

Exercise 1.8 Accounting Assumptions and Qualitative Characteristics

a

Explanation	*Relevance or Faithful representation*

b

Explanation	*Verifiability*

c

Explanation	*Timeliness requires that financial information is available to users in time*
	to influence their decisions. If relevant information about the likely damages
	is excluded from the financial reports, the ability to form predictions about
	future profit and available cash will be compromised.

d

Discussion

Exercise 1.9 Accounting Assumptions, Qualitative Characteristics and Elements of the Reports

a

Accounting Assumption	*Period OR Accrual basis*
Explanation	*Financial reports should be prepared for a period of time.*
	Only revenues that have been earned during the current
	period should be recognised in the calculation of profit. The
	revenue should be recorded upon delivery in 2025.

b

Qualitative Characteristic	*Faithful Representation OR Relevance*
Explanation	*If the revenue is recorded in 2024, the financial reports will*
	include information that is not relevant to decision making
	about the current period's profit. The financial information will
	not be free from material error or bias.

c

Explanation	*The inflow of economic benefit (cash) increases assets but also*
	increases liabilities (the goods are still owed to the customer).
	As a result, there is no increase to Owner's Equity, so it cannot be
	recognised as revenue.

Exercise 1.10 Elements of the reports

Item	Report/Classification	Definition
a Vehicle	*Balance Sheet Asset*	*a present economic resource controlled by the entity (as a result of past events) that is not held for resale and will be used for more than 12 months.*
b Cash sales	*Income Statement Revenue*	*an increase in assets (Bank), which leads to an increase in owner's equity, other than those relating to contributions from the owner*
c Loan – principal	*Balance Sheet Liability*	*a present obligation of the entity to transfer an economic resource (as a result of past events) sometime in the future (when the loan is repaid)*
d Interest on loan	*Income Statement Expense*	*a decrease in assets (Bank), which leads to a decrease in owner's equity, other than those relating to distributions to the owner*
e Owner's capital	*Balance Sheet Owner's Equity*	*the residual interest in the assets of the entity after the deduction of its liabilities*
f Amount owing from credit sales	*Balance Sheet Asset*	*a present economic resource controlled by the entity (as a result of past events) that is reasonably expected to be converted into cash within the next 12 months (when the cash is received from the Accounts Receivable)*
g Wages incurred	*Income Statement Expense*	*a decrease in assets (Bank), which leads to a decrease in owner's equity, other than those relating to distributions from the owner*
h Wages owing	*Balance Sheet Liability*	*a present obligation of the entity to transfer an economic resource (as a result of past events) that is reasonably expected to be settled within 12 months (when the employees are paid)*

Exercise 1.11 Elements of the reports

a

Explanation	*An asset is a present economic resource controlled by the entity.*
	An expense is a decrease in assets that decreases Owner's Equity.
	An asset will provide the entity with some future benefit, whereas
	an expense consumes this benefit.

b

Explanation	*Going Concern assumes that the business will operate indefinitely.*
	Recording the vehicle as a Non-Current Asset assumes that it will
	provide a benefit for a period greater than 12 months, and that the
	business will be in existence beyond this point.

c

Explanation	*If the vehicle was purchased as inventory and intended for resale, it*
	would be a present economic resource that would convert into cash
	within the next 12 months (when it was sold).

d

Explanation	*If the vehicle was purchased for internal use within the business, it*
	would be a present economic resource that would provide a benefit for
	a period greater than the next 12 months.

e

Explanation	*If the vehicle was considered inventory and sold, it would create an*
	expense called Cost of Sales.
OR	*If the vehicle was considered inventory and recorded as a Stock Loss*
OR	*If the vehicle was fully depreciated*

Exercise 1.12 Goodwill

a

Discussion	*The loyal clientele and repeat customers will ensure that the business will receive economic benefits into the future. In this way, the 'goodwill' is of benefit to the entity. However, it is difficult to place a dollar value on the amount of goodwill because there is no source document to support it. Given that it isn't Verifiable, recording it as an asset would result in financial information that is not free from bias or material error, breaching Faithful Representation.*

b

Discussion	*Elaine is faced with an ethical dilemma.*
	If she were to purchase her inventory from a cheaper supplier but maintain a consistent selling price, the gross profit margin that she makes from each sale would increase. Furthermore, she is also certain that her loyal customers would remain as such, not compromising the volume of sales. Elaine would be financial advantaged.
	However, the new supplier offers its workers poor employment conditions. These overseas workers (given that the inventory is imported) may be earning minimum wage and have no other potential employment opportunities. Their financial future and livelihoods may be entirely dependent on their current employment. Elaine would therefore be supporting a business that does not value the health and wellbeing of its staff, and by extension, the social community in which it operates.
	For Elaine to be a 'good' global citizen, it would be unwise for her to change suppliers for her own financial gain.

Exercise 2.1 Classifying items

Item	Classification
Accounts Payable	*Current Liability*
Bank Overdraft	*Current Liability*
Cash on Hand	*Current Asset*
Capital	*Owner's Equity*
Accounts Receivable	*Current Asset*
Equipment	*Non-Current Asset*
Mortgage – this year	*Current Liability*
Mortgage – remainder	*Non-Current Liability*
Premises	*Non-Current Asset*
Inventory	*Current Asset*
Vehicles	*Non-Current Asset*
Wages owing to employees	*Current Liability*
Rent paid in advance	*Current Asset*
GST Payable	*Current Liability*

Exercise 2.2 Balance Sheet

a

Explanation	*Equities are claims on the assets of the business, consisting of both liabilities (claims by outsiders) and owner's equity (claims by the owner),*

b

Calculation

Capital =	*Assets*	*less*	*Liabilities*
=	*$92 600*	*less*	*$33 400*
=	*$59 200*		

Capital	**$** *59 200*

c PONTE JEWELLERS

Balance Sheet as at 31 May 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Inventory	*62 000*		*Accounts Payable*		*3 400*
Bank	*5 900*		*Loan – NAB*		*30 000*
Accounts Receivable	*8 600*	*76 500*			
			Non-Current Liabilities		
Non-Current Assets					
Shop Fittings	*12 000*		**Owner's Equity**		
Office Equipment	*4 100*	*16 100*	*Capital – M. Florence*		*59 200*
Total Assets	**$**	***92 600***	**Total Equities**	**$**	***92 600***

d

Explanation	*It is classified as a Current Liability as it is a present obligation of the entity to transfer an economic resource (as a result of past events), that is reasonably expected to be settled within 12 months (when Accounts Payable are paid).*

e

Explanation	*Financial information must be capable of making a difference to the decisions made by users of the financial reports. Including the entity's current Bank balance represents important information about the entity's current cash position which will shape future cash flow activities and highlight areas of concern regarding Liquidity.*

Exercise 2.3 Balance Sheet

a

Calculation

Capital =	*Assets*	*less*	*Liabilities*
=	*$83 190*	*less*	*$38 000*
=	*$45 190*		

Capital | **$** *45 190*

b **GREG'S GARDENING SUPPLIES**

Balance Sheet as at 31 January 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Accounts Receivable	*2 490*		*Wages Owing*	*600*	
Inventory	*50 000*		*Accounts Payable*	*1 400*	
Bank	*700*		*Loan – ANZ*	*2 000*	*4 000*
Term Deposit	*8 000*	*61 190*			
			Non-Current Liabilities		
Non-Current Assets			*Loan – ANZ*		*34 000*
Motor vehicle	*22 000*	*22 000*			
			Owner's Equity		
			Capital – Miller		*45 190*
Total Assets	**$**	***83 190***	**Total Equities**	**$**	***83 190***

c

Explanation *It is classified as a Current Asset as it is a present economic resource controlled by the entity, as a result of past events, which is reasonably expected to be converted to cash, sold or consumed within the next 12 months (when the stock is sold).*

d

Explanation	*The estimated price of $15 200 is more up to date, and hence may be argued to be more Relevant (useful for decision-making). However, only the original purchase price is verifiable (using a source document): using this valuation ensures that the information in the Balance Sheet is Faithfully Represented, and free from bias or error.*

Exercise 2.4 Balance Sheet

a MALLACOOTA WINES

Balance Sheet as at 30 June 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Inventory	*12 000*		*Bank Overdraft*	*2 500*	
Accounts Receivable	*10 500*	*22 500*	*Accounts Payable*	*5 000*	
			GST Payable	*1 700*	
Non-Current Assets			*Mortgage*	*6 000*	*15 200*
Premises	*100 000*				
Shelving	*43 000*	*143 000*	**Non-Current Liabilities**		
			Mortgage		*54 000*
			Owner's Equity		
			Capital – Destio		*96 300*
Total Assets	**$**	***165 500***	**Total Equities**	**$**	***165 500***

b

Explanation	*Because it is accurate only on that particular date; after that date it is likely that the items will change, and a new Balance Sheet will need to be prepared.*

c Accounts Receivable:

Explanation	*It is classified as a Current Asset as it is a present economic resource controlled by the entity, as a result of past events, which is reasonably expected to be converted to cash within the next 12 months (when the cash is received from the Accounts Payable)*

Bank Overdraft:

Explanation	*It is classified as a Current Liability as it is a present obligation of the entity to transfer an economic resource, as a result of past events, that is reasonably expected to be settled within 12 months (when the overdraft is repaid).*

d

User 1	*Banks and other lenders; customers; suppliers*
User 2	*Potential buyers/investors*

Exercise 2.5 Transactions and the accounting equation

	Item	Classification (A/L/Oe)	Increase/Decrease	Amount $
a	*Bank*	*Asset*	*Increase*	*5 000*
	Loan – ANZ Bank	*Liability*	*Increase*	*5 000*
b	*Office Furniture*	*Asset*	*Increase*	*19 000*
	Bank	*Asset*	*Decrease*	*19 000*
c	*Accounts Payable*	*Liability*	*Decrease*	*450*
	Bank	*Asset*	*Decrease*	*450*
d	*Vehicle*	*Asset*	*Increase*	*25 000*
	Capital	*Owner's Equity*	*Increase*	*25 000*
e	*Loan – ANZ*	*Liability*	*Decrease*	*1 000*
	Bank	*Asset*	*Decrease*	*1 000*
f	*Inventory*	*Asset*	*Increase*	*3 000*
	Accounts Payable – HP Enterprises	*Liability*	*Increase*	*3 000*
g	*Bank*	*Asset*	*Increase*	*800*
	Accounts Receivable	*Asset*	*Decrease*	*800*

Exercise 2.6 Transactions and the accounting equation

a

Calculation

Capital =	*Assets*	*less*	*Liabilities*
=	*$77 300*	*less*	*$11 000*
=	*$66 300*		

Capital $ *66 300*

b

Explanation *The $4 600 represents the price paid for the computer by Pete privately, a different Accounting Entity. This price is not relevant to the business at the point of contribution. Recording it at $4 600 would breach Faithful Representation, as the amount would not be free from material error or bias.*

c

	Item	Classification (A/L/Oe)	Increase/Decrease	Amount $
April 1	*Accounts Payable*	*Liability*	*Decrease*	*3 000*
	Bank	*Asset*	*Decrease*	*3 000*
2	*Delivery Van*	*Asset*	*Increase*	*28 000*
	Loan – NAB	*Liability*	*Increase*	*28 000*
3	*Bank*	*Asset*	*Increase*	*2 400*
	Accounts Receivable	*Asset*	*Decrease*	*2 400*
4	*Drawings*	*- Owner's Equity*	*Increase*	*1 500*
	Inventory	*Asset*	*Decrease*	*1 500*
5	*Wages Owing*	*Liability*	*Decrease*	*2 000*
	Bank	*Asset*	*Decrease*	*2 000*
6	*Computer*	*Asset*	*Increase*	*4 000*
	Capital	*Owner's Equity*	*Increase*	*4 000*

d PETE'S PAINT EMPORIUM

Balance Sheet as at 6 April 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Accounts Receivable	*5 600*		*Bank*	*300*	
Inventory	*22 500*	*28 100*	*Accounts Payable*	*6 000*	
			Loan – NAB	*12 000*	*18 300*
Non-Current Assets					
Fixtures and Fittings	*18 000*		**Non-Current Liabilities**		
Delivery Vans	*53 000*		*Loan – NAB*		*16 000*
Computer	*4 000*	*75 000*			
			Owner's Equity		
			Capital – Pete	*66 300*	
			Add Capital Contribution	*4 000*	
			Less Drawings	*(1 500)*	*68 800*
Total Assets	**$**	***103 100***	**Total Equities**	**$**	***103 100***

Exercise 2.7 Transactions and the Balance Sheet

a

	Item	Classification (A/L/Oe)	Increase/ Decrease	Amount $
Oct. 1	*Accounts Payable*	*Liability*	*Decrease*	*2 000*
	Bank	*Asset*	*Decrease*	*2 000*
2	*Bank*	*Asset*	*Increase*	*5 000*
	Capital – Sam	*Owner's Equity*	*Increase*	*5 000*
3	*Loan – ANZ*	*Liability*	*Decrease*	*3 000*
	Bank	*Asset*	*Decrease*	*3 000*
4	*Inventory*	*Asset*	*Increase*	*10 000*
	Accounts Payable	*Liability*	*Increase*	*10 000*
5	*Drawings*	*- Owner's Equity*	*Increase*	*2 500*
	Fridges	*Asset*	*Decrease*	*2 500*
6	*Prepaid Rent Expense*	*Asset*	*Increase*	*1 200*
	Bank	*Asset*	*Decrease*	*1 200*

b SAM BOOKER LIQUOR

Balance Sheet as at 6 October 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Accounts Receivable	*3 000*		*Bank Overdraft*	*3 700*	
Inventory	*35 000*		*Accounts Payable*	*15 000*	
Prepaid Rent Expense	*1 200*	*39 200*	*Loan – ANZ*	*6 000*	*24 700*
Non-Current Assets			**Non-Current Liabilities**		
Fixtures and Fittings	*15 000*		*Loan – ANZ*		*27 000*
Fridges	*37 500*	*52 500*	**Owner's Equity**		
			Capital – Sam	*37 500*	
			Add Capital Contribution	*5 000*	
			Less Drawings	*(2 500)*	*40 000*
Total Assets	**$**	***91 700***	**Total Equities**	**$**	***91 700***

c

Explanation	*It is classified as a Current Asset as it is a present economic resource controlled by the entity, as a result of past events, which is reasonably expected to be consumed within the next 12 months*

Exercise 3.1 Recording in the General Ledger

a Analysing Chart

Date	Accounts affected	Classification (A/L/Oe/R/E)	Increase/Decrease	Debit $	Credit $
May 1	*Bank*	*A*	*Inc.*	*40 000*	
	Capital	*Oe*	*Inc.*		*40 000*
2	*Prepaid Rent Expense*	*A*	*Inc.*	*500*	
	Bank	*A*	*Dec.*		*500*
3	*Inventory*	*A*	*Inc.*	*8 000*	
	Accounts Payable	*L*	*Inc.*		*8 000*
4	*Office Furniture*	*A*	*Inc.*	*3 000*	
	Bank	*A*	*Dec.*		*3 000*
5	*Advertising*	*E*	*Inc.*	*150*	
	Bank	*A*	*Dec.*		*150*
6	*Computer*	*A*	*Inc.*	*1 200*	
	Capital	*Oe*	*Inc.*		*1 200*

b General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Capital*	*40 000*	*May 2*	*Prepaid Rent Expense*	*500*
			4	*Office Furniture*	*3 000*
			5	*Advertising*	*150*

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			May 1	*Bank*	*40 000*
			6	*Computer*	*1 200*

Prepaid Rent Expense (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 2	*Bank*	*500*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 3	*Accounts Payable*	*8 000*			

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			May 3	*Inventory*	*8 000*

Office furniture (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 4	*Bank*	*3 000*			

Advertising (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 5	*Bank*	*150*			

Computer (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 6	*Capital*	*1 200*			

c

Explanation	*The business purchased inventory on credit. They now have a present obligation to transfer an economic resource (cash) to Lush Lawnseed within the next 12 months.*

d

Explanation	*The contribution of Jane's personal computer has increased her claim on the assets of her business. The transaction must be recorded as a Capital Contribution to reflect the transaction between the business and its owner, a separate Accounting Entity.*

Exercise 3.2 Recording in the General Ledger

a Analysing Chart

Date	Accounts affected	Classification (A/L/Oe/R/E)	Increase/ Decrease	Debit $	Credit $
Nov. 1	*Bank*	*A*	*Inc.*	*25 000*	
	Capital	*Oe*	*Inc.*		*25 000*
2	*Premises*	*A*	*Inc.*	*140 000*	
	Mortgage	*L*	*Inc.*		*140 000*
3	*Inventory*	*A*	*Inc.*	*50 000*	
	Accounts Payable	*L*	*Inc.*		*50 000*
4	*Wages*	*E*	*Inc.*	*1 900*	
	Bank	*A*	*Dec.*		*1 900*
5	*Drawings*	*–Oe*	*Inc.*	*1 000*	
	Bank	*A*	*Dec.*		*1 000*
6	*Prepaid Advertising*	*A*	*Inc.*	*4 000*	
	Bank	*A*	*Dec.*		*4 000*
7	*Accounts Payable*	*L*	*Dec.*	*1 500*	
	Bank	*A*	*Dec.*		*1 500*

b General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	*Capital*	*25 000*	*Nov. 4*	*Wages*	*1 900*
			5	*Drawings*	*1 000*
			6	*Prepaid Advertising*	*4 000*
			7	*Accounts Payable*	*1 500*

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Nov. 1	*Bank*	*25 000*

Premises (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 2	*Mortgage*	*140 000*			

Mortgage (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Nov. 2	*Premises*	*140 000*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 3	*Accounts Payable*	*50 000*			

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 7	*Bank*	*1 500*	*Nov. 3*	*Inventory*	*50 000*

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 4	*Bank*	*1 900*			

Drawings (–Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 5	*Bank*	*1 000*			

Prepaid Advertising (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 6	*Bank*	*4 000*			

c

Explanation	*Going Concern assumes that the business will continue to operate indefinitely into the future, and its records are kept on that basis. The business now has a Non-Current Liability arising from the purchase of the Premises and is assumed to continue to operate long enough to settle this obligation.*

d

Explanation	*The Prepaid Advertising is classified as a Current Asset as it is a present economic resource controlled by the entity, as a result of past events, which has been paid in advance and is reasonably expected to be consumed within the next 12 months (commencing December 2025).*

Exercise 3.3 Cash sales in the General Ledger

a

Explanation	*Although Pete and the business are assumed to be separate entities, there is no 'sale' document (and no cash exchanged) when the asset is contributed. Therefore, the fair value ($22 000) must be used as the cost price in the business' records.*

b Analysing Chart

Date	Accounts affected	Classification (A/L/Oe/R/E)	Increase/Decrease	Debit $	Credit $
Jan. 1	*Bank*	*A*	*Inc.*	*15 000*	
	Vehicle	*A*	*Inc.*	*22 000*	
	Capital	*Oe*	*Inc.*		*37 000*
2	*Prepaid Rent Expense*	*A*	*Inc.*	*600*	
	Bank	*A*	*Dec.*		*600*
3	*Inventory*	*A*	*Inc.*	*45 000*	
	Accounts Payable	*L*	*Inc.*		*45 000*
4	*Bank*	*A*	*Inc.*	*700*	
	Sales	*R*	*Inc.*		*700*
	Cost of Sales	*E*	*Inc.*	*500*	
	Inventory	*A*	*Dec.*		*500*
5	*Wages*	*E*	*Inc.*	*150*	
	Bank	*A*	*Dec.*		*150*
6	*Bank*	*A*	*Inc.*	*1 400*	
	Sales	*R*	*Inc.*		*1 400*
	Cost of Sales	*E*	*Inc.*	*1 000*	
	Inventory	*A*	*Dec.*		*1 000*
7	*Accounts Payable*	*L*	*Dec.*	*2 500*	
	Bank	*A*	*Dec.*		*2 500*

c General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	*Capital*	*15 000*	*Jan. 2*	*Prepaid Rent Expense*	*600*
4	*Sales*	*700*	*5*	*Wages*	*150*
6	*Sales*	*1 400*	*7*	*Accounts Payable*	*2 500*

Vehicle (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	*Capital*	*22 000*			

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Jan. 1	*Bank / Vehicle*	*37 000*

Prepaid Rent Expense (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 2	*Bank*	*600*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 3	*Accounts Payable*	*45 000*	*Jan. 4*	*Cost of Sales*	*500*
			6	*Cost of Sales*	*1 000*

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 7	*Bank*	*2 500*	*Jan. 3*	*Inventory*	*45 000*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Jan. 4	*Bank*	*700*
			6	*Bank*	*1 400*

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 4	*Inventory*	*500*			
6	*Inventory*	*1 000*			

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 5	*Bank*	*150*			

d

	Increase/Decrease/No effect	Amount $
Assets	*Increase (Increase Bank $700, decrease Inventory $500)*	*200*
Liabilities	*No effect*	*0*
Owner's Equity	*Increase (Sales $700 less Cost of Sales $500 = Profit)*	*200*

e

Explanation	*The cost price of Inventory is verified by the source document used in the purchase transaction. This evidence ensures that the value of the asset is Faithfully represented, and thus free from bias or material error.*

f

Calculation

Gross Profit = Sales revenue less Cost of Sales
= $2 100 less $1 500
= $600

Gross Profit | $ *600*

Exercise 3.4 Cash and credit sales in the General Ledger

a Analysing Chart

Date	Accounts affected	Classification (A/L/Oe/R/E)	Increase/Decrease	Debit $	Credit $
Aug. 1	*Bank*	*A*	*Inc.*	*30 000*	
	Inventory	*A*	*Inc.*	*10 000*	
	Capital	*Oe*	*Inc.*		*40 000*
2	*Premises*	*A*	*Inc.*	*150 000*	
	Bank	*A*	*Dec.*		*10 000*
	Mortgage – QV Bank	*L*	*Inc.*		*140 000*
3	*Bank*	*A*	*Inc.*	*400*	
	Sales	*R*	*Inc.*		*400*
	Cost of Sales	*E*	*Inc.*	*200*	
	Inventory	*A*	*Dec.*		*200*
4	*Shelving*	*A*	*Inc.*	*2 500*	
	Bank	*A*	*Dec.*		*2 500*
5	*Inventory*	*A*	*Inc.*	*2 600*	
	Accounts Payable	*L*	*Inc.*		*2 600*
6	*Accounts Receivable*	*A*	*Inc.*	*900*	
	Sales	*R*	*Inc.*		*900*
	Cost of Sales	*E*	*Inc.*	*450*	
	Inventory	*A*	*Dec.*		*450*
7	*Wages*	*E*	*Inc.*	*600*	
	Bank	*A*	*Dec.*		*600*
8	*Drawings*	*–Oe*	*Inc.*	*1 500*	
	Inventory	*A*	*Dec.*		*1 500*
9	*Bank*	*A*	*Inc.*	*500*	
	Accounts Receivable	*A*	*Dec.*		*500*

b General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	*Capital*	*30 000*	*Aug. 2*	*Premises*	*10 000*
3	*Sales*	*400*	*4*	*Shelving*	*2 500*
9	*Accounts Receivable*	*500*	*7*	*Wages*	*600*
	17 800				
		30 900			*13 100*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	*Capital*	*10 000*	*Aug. 3*	*Cost of Sales*	*200*
5	*Accounts Payable*	*2 600*	*6*	*Cost of Sales*	*450*
			8	*Drawings*	*1 500*
	10 450				
		12 600			*2 150*

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 1	*Bank / Inventory*	*40 000*

Premises (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 2	*Bank / Mortgage – QV Bank*	*150 000*			

Mortgage – QV Bank (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 2	*Premises*	*140 000*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 3	*Bank*	*400*
			6	*Accounts Receivable*	*900*
				1 300	

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 3	*Inventory*	*200*			
6	*Inventory*	*450*			
	650				

Shelving (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 4	*Bank*	*2 500*			

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 5	*Inventory*	*2 600*

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 6	*Sales*	*900*	*Aug. 9*	*Bank*	*500*
	400				

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 7	*Bank*	*600*			

Drawings (–Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 8	*Inventory*	*1 500*			

c

Explanation	*The transaction on 6 August is a credit sale. Even though the cash has not been received at the point of sale, the revenue has been earned and the expected economic benefit (being the receipt of cash from the Account Receivable) can be measured in a faithful and verifiable manner.*

d

Purpose	*To ensure that total debits are equal to total credits, thus ensuring a balanced accounting equation.*

e MONARO MOTORS

Trial Balance as at 9 August 2025

Account	Debit $	Credit $
Bank	*17 800*	
Inventory	*10 450*	
Capital		*40 000*
Premises	*150 000*	
Mortgage – QV Bank		*140 000*
Sales		*1 300*
Cost of Sales	*650*	
Shelving	*2 500*	
Accounts Payable		*2 600*
Accounts Receivable	*400*	
Wages	*600*	
Drawings	*1 500*	
Total	***$183 900***	***$183 900***

Exercise 3.5 Opening balances in the General Ledger

a/b General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*1 500*	*June 4*	*Wages*	*900*
1	*Accounts Receivable*	*2 000*	*8*	*Shelving*	*3 200*
6	*Sales*	*120*	*10*	*Loan – CF Bank*	*700*
7	*Accounts Receivable*	*500*	*12*	*Wages*	*900*
9	*Sales*	*230*			
				1 350	
		4 350			*5 700*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*5 000*	*June 3*	*Cost of Sales*	*650*
5	*Accounts Payable*	*1 900*	*6*	*Cost of Sales*	*80*
			9	*Cost of Sales*	*150*
			11	*Cost of Sales*	*380*
	5 640				
		6 900			*1 260*

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*8 000*	*June 1*	*Bank*	*2 000*
3	*Sales*	*1 000*	*7*	*Bank*	*500*
11	*Sales*	*500*			
	7 000				
		9 500			*2 500*

Shelving (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	Balance	16 000			
8	Bank	3 200			
	19 200				

Computer (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 2	Capital	2 500			

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			June 5	Inventory	1 900

Loan - CF Bank (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 10	Bank	700	June 1	Balance	6 000
				5 300	
		700			6 000

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			June 1	Balance	24 500
			2	Computer	2 500
				27 000	

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			June 3	*Accounts Receivable*	*1 000*
			6	*Bank*	*120*
			9	*Bank*	*230*
			11	*Accounts Receivable*	*500*
				1 850	

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 3	*Inventory*	*650*			
6	*Inventory*	*80*			
9	*Inventory*	*150*			
11	*Inventory*	*380*			
	1 260				

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 4	*Bank*	*900*			
12	*Bank*	*900*			
	1 800				

c

Explanation	*Under Accrual Accounting, revenue is to be recognised when it is earned, regardless of whether or not the cash has been received. The revenue has already been recognised at the point of sale and to do so again would be double-counting. The receipt from the Accounts Receivable simply swaps one asset (Accounts Receivable) for another asset (Bank).*

d

Effect	*Assets would be understated by $40 as Bank would be understated by $120 but Inventory would be overstated by $80.* *Liabilities would have no effect.* *Owner's Equity would be understated by $40 as Sales revenues would be understated by $120 and Cost of Sales expense would be understated by $80, understating Net Profit.*

e HOT DOGGIES

Trial Balance as at 12 June 2025

Account	Debit $	Credit $
Bank		*1 350*
Inventory	*5 640*	
Accounts Receivable	*7 000*	
Shelving	*19 200*	
Computer	*2 500*	
Accounts Payable		*1 900*
Loan – CF Bank		*5 300*
Capital		*27 000*
Sales		*1 850*
Cost of Sales	*1 260*	
Wages	*1 800*	
Total	***$37 400***	***$37 400***

f

Error	• *Two entries recorded on the same side* • *Only one entry has been recorded* • *Different amounts have been recorded on each side*

Exercise 3.6 Opening balances in the General Ledger

a/b General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 3	*Accounts Receivable*	*8 000*	*Oct. 1*	*Balance*	*1 000*
4	*Sales*	*2 000*	*2*	*Shop Fittings*	*500*
8	*Accounts Receivable*	*4 000*	*7*	*Wages*	*700*
			10	*Accounts Payable*	*7 000*
	4 800				
		14 000			*9 200*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*70 000*	*Oct. 1*	*Cost of Sales*	*5 000*
6	*Accounts Payable*	*12 000*	*4*	*Cost of Sales*	*1 000*
			9	*Cost of Sales*	*1 750*
	74 250				
		82 000			*7 750*

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*34 000*	*Oct. 3*	*Bank*	*8 000*
1	*Sales*	*10 000*	*8*	*Bank*	*4 000*
9	*Sales*	*3 500*			
	35 500				
		47 500			*12 000*

Shop Fittings (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*17 000*			
2	*Bank/Loan – Punkah CC*	*5 000*			
	22 000				

Premises (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*100 000*			

Loan – Highland Bank (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Oct. 1	*Balance*	*90 000*

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 10	*Bank*	*7 000*	*Oct. 1*	*Balance*	*51 000*
			6	*Inventory*	*12 000*
				56 000	
		7 000			*63 000*

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Oct. 1	*Balance*	*79 000*
			5	*Advertising*	*130*
				79 130	

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Oct. 1	*Accounts Receivable*	*10 000*
			4	*Bank*	*2 000*
			9	*Accounts Receivable*	*3 500*
				15 500	

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Inventory*	*5 000*			
4	*Inventory*	*1 000*			
9	*Inventory*	*1 750*			
	7 750				

Loan – Punkah CC (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Oct. 2	*Shop Fittings*	*4 500*

Advertising (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 5	*Capital*	*130*			

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 7	*Bank*	*700*			

c

Explanation	*It names the other ledger account affected as part of the double-entry of each transaction. This aids in tracking both effects of each transaction on the Accounting Equation, and ensures that a double-entry has been recorded.*

d

Explanation	*Wages is an Expense because it is a decrease in assets (Bank) and a decrease*
	in Owner's Equity, other than those relating to distributions to the owner.

e **BRIGHT CAMPING**

Trial Balance as at 10 October 2025

Account	Debit $	Credit $
Bank	*4 800*	
Inventory	*74 250*	
Accounts Receivable	*35 500*	
Shop Fittings	*22 000*	
Premises	*100 000*	
Loan – Highland Bank		*90 000*
Accounts Payable		*56 000*
Capital		*79 130*
Sales		*15 500*
Cost of Sales	*7 750*	
Loan – Punkah CC		*4 500*
Advertising	*130*	
Wages	*700*	
Total	***$245 130***	***$245 130***

f

Error 1	*Debit and Credit reversed; transaction completely omitted*

Error 2	*Wrong amount recorded on both sides; wrong accounts used; entry recorded twice*

Exercise 3.7 Identifying transactions

a

Date	Transaction
Dec. 1	*Opening balances*
2	*Cash sale of inventory for $900 (Cost price $600)*
3	*Paid $100 cash for new office equipment*
4	*Owner withdrew $250 worth of office equipment for personal use*
5	*Credit sale of inventory for $600 (Cost price $400)*
6	*Paid $150 cash for repairs*
7	*Received $300 cash from an account receivable*
8	*Purchased $800 worth of inventory on credit*

b

Calculation	*SP*	=	*CP x (1 + m/up*)*	** Measured as a decimal*
	$900	=	*$600 x (1 + m/up*)*	*i.e. 0.5 = 50%*
	*1 + m/up**	=	*$900 / $600* *(or 600 / 400)*	
	*M/up**	=	*1.5 – 1*	**Mark-up** *50* **%**

c PERFECT PHOTOGRAPHS
Trial Balance as at 8 December 2025

Account	Debit $	Credit $
Bank	*1 950*	
Inventory	*4 800*	
Accounts Receivable	*2 000*	
Office Equipment	*3 850*	
Accounts Payable		*1 900*
Capital		*10 600*

Sales		*1 500*
Drawings	*250*	
Cost of Sales	*1 000*	
Repairs	*150*	
Total	***$14 000***	***$14 000***

d

Explanation	*The Trial Balance would not identify this error as it has a matching double-entry, i.e. there is an entry on the debit side and a matching entry on the credit side.*

e

Explanation	*Assets (Office Equipment) would be overstated by $200 as the business would be recording an asset that it didn't actually have.* *There would be no effect on liabilities.* *Owner's Equity would be overstated by $200 as the expense, Office Expenses, would be understated by $200, overstating Net Profit.*

f

Account	Debit $	Credit $
Office Expenses	*200*	
Office Equipment		*200*

Exercise 3.8 Transactions to reports

a

Calculation

Owner's Equity	=	*Assets*	*less*	*Liabilities*
	=	*$256 100*	*less*	*$92 500*
	=	*$163 600*		

Owner's Equity | **$** *163 600*

b/c General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*1 200*	*July 3*	*Electricity*	*450*
1	*Sales*	*800*	*9*	*Wages*	*500*
14	*Accounts Receivable*	*1 600*	*17*	*Accounts Payable*	*1 000*
25	*Sales*	*580*	*19*	*Mortgage – JH Finance/*	*500*
27	*Accounts Receivable*	*5 400*		*Interest Expense*	*200*
			23	*Wages*	*500*
			31	*Prepaid Advertising*	*6 000*
				Balance	*430*
		$9 580			*$9 580*
Aug. 1	*Balance*	*430*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*52 000*	*July 1*	*Cost of Sales*	*400*
7	*Accounts Payable*	*4 000*	*6*	*Cost of Sales*	*2 700*
			11	*Cost of Sales*	*3 500*
			20	*Drawings*	*600*
			25	*Cost of Sales*	*290*
			31	*Balance*	*48 510*
		$56 000			*$56 000*
Aug. 1	*Balance*	*48 510*			

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*2 000*	*July 14*	*Bank*	*1 600*
6	*Sales*	*5 400*	*27*	*Bank*	*5 400*
11	*Sales*	*7 000*	*31*	*Balance*	*7 400*
		$14 400			*$14 400*
Aug. 1	*Balance*	*7 400*			

Office Equipment (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*10 900*			

Premises (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*190 000*			

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 17	*Bank*	*1 000*	*July 1*	*Balance*	*7 500*
31	*Balance*	*10 500*	*7*	*Inventory*	*4 000*
		$11 500			*$11 500*
			Aug. 1	*Balance*	*10 500*

Mortgage – JH Finance (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 19	*Bank*	*500*	*July 1*	*Balance*	*85 000*
31	*Balance*	*84 500*			
		$85 000			*$85 000*
			Aug. 1	*Balance*	*84 500*

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			July 1	*Balance*	*163 600*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			July 1	*Bank*	*800*
			6	*Accounts Receivable*	*5 400*
			11	*Accounts Receivable*	*7 000*
			25	*Bank*	*580*
				13 780	

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Inventory*	*400*			
6	*Inventory*	*2 700*			
11	*Inventory*	*3 500*			
25	*Inventory*	*290*			

	6 890				

Electricity (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 3	*Bank*	*450*			

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 9	*Bank*	*500*			
23	*Bank*	*500*			
	1 000				

Interest Expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 19	*Bank*	*200*			

Drawings (–Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 20	*Inventory*	*600*			

Prepaid advertising (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 31	*Bank*	*6 000*			

d TURNING POINTS
Trial Balance as at 31 July 2025

Account	Debit $	Credit $
Bank	*430*	
Inventory	*48 510*	
Accounts Receivable	*7 400*	
Office Equipment	*10 900*	
Premises	*190 000*	
Accounts Payable		*10 500*
Mortgage – JH Finance		*84 500*
Capital		*163 600*
Sales		*13 780*
Cost of Sales	*6 890*	
Electricity	*450*	
Wages	*1 000*	
Interest Expense	*200*	
Drawings	*600*	
Prepaid Advertising	*6 000*	
Total	***$272 380***	***$272 380***

e

Accounting assumption	*Accrual basis*
Explanation	*The Accrual basis assumption requires that revenue is recorded when earned, not when the cash is received. The revenue was earned in the previous period (i.e. June 2025) when the goods were provided to the customer. To count it as revenue again in July would be double counting, overstating Net Profit.*

f

	Overstated/Understated/No effect	Amount $
Assets	*Overstated (Bank overstated)*	*700*
Liabilities	*Overstated (Mortgage loan overstated)*	*500*
Owner's Equity	*Overstated (Interest expense understated → Net Profit overstated)*	*200*

g TURNING POINTS

Income Statement for July 2025

	$	$
Revenue		
Sales		*13 780*
less Cost of Goods Sold		
Cost of Sales		*6 890*
Gross Profit		***6 890***
less Other Expenses		
Electricity	*450*	
Wages	*1 000*	
Interest Expense	*200*	*1 650*
Net Profit	**$**	***5 240***

h TURNING POINTS

Balance Sheet as at 31 July 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Bank	*430*		*Accounts Payable*	*10 500*	
Inventory	*48 510*		*Mortgage – JH Finance*	*6 000*	*16 500*
Accounts Receivable	*7 400*				
Prepaid Advertising	*6 000*	*62 340*	**Non-Current Liabilities**		
			Mortgage – JH Finance		*78 500*
Non-Current Assets					
Office Equipment	*10 900*		**Owner's Equity**		
Premises	*190 000*	*200 900*	*Capital – Belmore*	*163 600*	
			Add Net Profit	*5 240*	
			Less Drawings	*600*	*168 240*
Total Assets	**$**	***263 240***	**Total Equities**	**$**	***263 240***

i

Explanation	*As at 31 July 2025 – when the Balance Sheet is prepared – the advertising is a Current Asset, and so must be included in the Balance Sheet to ensure that the report contains all information that may be useful for decision-making and/or forming predictions.*

Exercise 4.1 Calculating GST

a

Explanation	*A tax invoice is a source document used to verify any transaction that involves the GST. They provide specific information about transactions that is required by the ATO to substantiate GST amounts.*

b

Information 1	*The words 'Tax Invoice' stated clearly / name of the seller / ABN of the seller*
Information 2	*The date of the transaction / A description of the good/service provided*
Information 3	*The price of the transaction, including the GST /The amount of the GST*

c

	Selling price (excluding GST)	***GST (10%)***	***Total price (including GST)***
March 1	**$400**	**$40**	*$440*
5	*$600*	**$60**	**$660**
13	**$390**	*$39*	**$429**
19	**$720**	*$72*	*$792*
23	*$1 200*	**$120**	*$1 320*
28	*$920*	*$92*	**$1 012**

d

Calculation	*Total GST received* *= $40 + $60 + $39 + $72 + $120 + $92 = $423*

e

Explanation	*A business will charge its customers the selling price, plus an additional 10% GST which is charged on behalf of the Government. The business is not entitled to keep any GST received, rather, they must forward any GST collected to the ATO, increasing their present obligation.*

f

Explanation	*Ultimately it is the final consumer who is penalised by the GST system, not small businesses. If a business incurs any GST on purchases that it makes within the ordinary course of business operations, it is entitled to receive back this GST in the form of a decrease to an existing GST liability owed to the ATO.*

g

Calculation	*Total GST at 31 March 2025:* *= GST received less GST paid* *= $423 - $140 = $283 owed to the ATO from the business*

Exercise 4.2 Cash Receipt

a

Explanation	*Source documents provide evidence of the details of every transaction, ensuring that all transactions are Verifiable. In turn, this ensures that the accounting system provides a Faithful Representation of the firm's transactions, as they will be complete, free from bias or material error.*

b

Document	*Cash receipt: EFT*

c

Transaction	*The owner of Cal Q Later, Lenny, has deposited $30 000 into his business'*
	bank account via EFT to commence business operations

d

General Journal

Date	Account	Debit $	Credit $
1 May	*Bank*	*30 000*	
	Capital		*30 000*
	Cash contribution by the owner to commence business		
	operations (Rec. 001)		

e General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Capital*	*30 000*			

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			May 1	*Bank*	*30 000*

f

Explanation	*The Accounting Entity assumption states that the records of assets, liabilities and business activities of the entity are to be kept completely separate from those of the owner. When Lenny commenced his business, a new bank account was required to be established that was separate from his account used for personal purposes.*

Exercise 4.3 Cash Sale

a

Document	*Receipt*

b

Transaction	*Cash sale of 2 top hats for $200 (plus GST) total*

c

General Journal

Date	Account	Debit $	Credit $
2 Nov	*Bank*	*220*	
	Sales		*200*
	GST Clearing		*20*
	Cost of Sales	*100*	
	Inventory		*100*
	Cash sale of 2 top hats (Rec. 60)		

d **General Ledger**

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Nov	*Sales / GST Clearing*	*220*			

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Nov	*Bank*	*200*

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Nov	*Bank*	*20*

Cost of Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Nov	*Inventory*	*100*			

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Nov	*Cost of Sales*	*100*

e

Explanation	*The GST is collected from the customer on behalf of the ATO, so Hats Off to Hats! has a present obligation to forward this GST to the ATO, and it is reasonably expected to be settled within 12 months.*

f

Effect	*Assets will increase by $120 as Bank will increase by $220 but is offset by the decrease to Inventory of $100* *Liabilities will increase by $20 as the business now has a present obligation to forward this GST to the ATO* *Owner's Equity will increase by $100 as Sales revenues will increase by $200 but is offset by the increase to Cost of Sales expense by $100*

g

Explanation	*Accounting information is only useful if it available at the time that decisions need to be made. By recording transactions in a timely manner when they occur, all information that is required to influence and inform decisions at any specific point in time will be available.*

Exercise 4.4 Cash Transactions

a

Feature 1	*There is a Receipt number*
Feature 2	*The source document refers to 'Cash Sales'*

b

Explanation	*Document B is a credit card receipt. It would not be recognised by the ATO as a tax invoice because:* *It does not contain the words 'Tax Invoice' and* *It does not contain the ABN of the seller*

c

Calculation	*Sales revenue* *= $319 inclusive of GST* *= $319 / 1.1 = $290*	
	Sales revenue	**$** *290*

d

Explanation	*A narration provides a short reference of the General Journal transaction, along with the source document reference. The user of the accounting information is able to Verify the specific evidence relating to the transaction, ensuring that it has been recorded correctly.*

e

General Journal

Date	Account	Debit $	Credit $
1 Dec	*Bank*	*5 280*	
	Sales		*4 800*
	GST Clearing		*480*
	Cost of Sales	*3 600*	
	Inventory		*3 600*
2 Dec	*Bank*	*319*	
	Sales		*290*
	GST Clearing		*29*
	Cost of Sales	*200*	
	Inventory		*200*

f **General Ledger**

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Dec	*Balance*	*2 400*			
1 Dec	*Sales / GST Clearing*	*5 280*			
2 Dec	*Sales / GST Clearing*	*319*			

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Dec	*Bank*	*4 800*
			2 Dec	*Bank*	*290*

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Dec	*Bank*	*480*
			2 Dec	*Bank*	*29*

Cost of Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Dec	*Inventory*	*3 600*			
2 Dec	*Inventory*	*200*			

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Dec	*Balance*	*20 000*
			1 Dec	*Cost of Sales*	*3 600*
			2 Dec	*Cost of Sales*	*200*

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Dec	*Balance*	*22 400*

g

Calculation	*Gross Profit = Sales Revenue less Cost of Goods Sold* *Sales Revenue = $5 090* *Cost of Sales = $3 800*
Gross Profit	*$ 1 290*

h

Explanation	*GST Clearing would be reported as a Current Liability of $509 as it is a present obligation of the entity, as a result of past events, to transfer an economic resource within the next 12 months to the ATO.*

Exercise 4.5 Cash Payment

a

Stage	*Input*

b

Document	*Cheque butt*
Transaction	*Cash payment to Bay Gazette for Advertising worth $950 plus GST*

c

Advantage 1	*Secure – eliminate the need to carry large amounts of cash*
Advantage 1	*Traceable –can be traced / Verifiable – the cheque butt*

d

General Journal

Date	Account	Debit $	Credit $
2 May	*Advertising*	*950*	
	GST Clearing	*95*	
	Bank		*1 045*
	Payment to Bay Gazette for Advertising (Chq. 663)		

e

Effect	*Assets will decrease by $1 045 as Bank will decrease by $1 045 as the business is making a payment* *Liabilities will decrease by $95 as the business is now entitled to receive the GST paid back from the ATO in the form of a decrease to an existing GST liability* *Owner's Equity will decrease by $950 the business has now incurred an expense of $950, decreasing Net Profit*

f

Explanation	*Given that the payment for Advertising incurred GST, additional information would need to be provided (for example, the original invoice from Bay Gazette) to ensure that the amounts recorded were verifiable by the source document evidence mandated by the ATO.*

Exercise 4.6 Cash Payments

a

Calculation	*GST paid = 10% of $1 400 = $140*
GST paid	**$** *140*

b

Explanation	*There is no GST on drawings because this transaction is internal between a business and its owner and no purchase or sale of goods and/or services has taken place.*

c

Explanation	*Document C would decrease the GST liability of Stipe, Buck and Mills by $25 because the business is entitled to receive the GST paid back from the ATO in the form of a decrease to an existing GST liability.*

d

Explanation	*The General Journal is an accounting record used to record each transaction, and identify its source document, before posting to the General Ledger. It provides the connection between the source document evidence and the recording that takes place in the General Ledger, ensuring that the financial reports which are generated provide information that is both Relevant and a Faithful Representation of the firm's financial situation and performance.*

e

General Journal

Date	Account	Debit $	Credit $
4 Jan	*Inventory*	*1 400*	
	GST Clearing	*140*	
	Bank		*1 540*
10 Jan	*Drawings*	*400*	
	Bank		*400*
15 Jan	*Electricity*	*250*	
	GST Clearing	*25*	
	Bank		*275*
20 Jan	*Wages*	*600*	
	Bank		*600*
26 Jan	*Insurance*	*320*	
	GST Clearing	*32*	
	Bank		*352*
31 Jan	*Bank Fees*	*10*	
	Bank		*10*

f **General Ledger**

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jan	*Balance*	*4 200*	*4 Jan*	*Inventory / GST Clearing*	*1 540*
			10 Jan	*Drawings*	*400*
			15 Jan	*Electricity / GST Clearing*	*275*
			20 Jan	*Wages*	*600*
			26 Jan	*Insurance / GST Clearing*	*352*
			31 Jan	*Bank Fees*	*10*

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jan	*Balance*	*30 000*			
4 Jan	*Bank*	*1 400*			

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Jan	*Bank*	*140*	*1 Jan*	*Balance*	*300*
15 Jan	*Bank*	*25*			
26 Jan	*Bank*	*32*			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jan	*Balance*	*33 900*

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
10 Jan	*Bank*	*400*			

Electricity

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
15 Jan	*Bank*	*250*			

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Jan	*Bank*	*600*			

Insurance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
26 Jan	*Bank*	*320*			

Bank Fees

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
31 Jan	*Bank*	*10*			

Exercise 4.7 GST Clearing Account

a

Transaction	*Cash sales*

b

Transaction	*August 2*
Justification	*Given that selling prices are higher than cost prices, it is likely that the*
	inventory purchased on 2 August was then sold on 5 August

c General Ledger

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Aug	Bank	35	5 Aug	Bank	240
8	Bank	12	11	Bank	320
16	Bank	500	23	Bank	250
22	Bank	21			
28	Bank	19			
31	*Balance*	*223*			
		810			*810*
			1 Sep	*Balance*	*223*

d

Explanation	*GST Clearing would be reported as a Current Liability of $223 as it is a present obligation of the entity, as a result of past events, to transfer an economic resource within the next 12 months to the ATO.*

e

General Journal

Date	Account	Debit $	Credit $
4 Sep	*GST Clearing*	*223*	
	Bank		*223*
	GST settlement paid to ATO for balance owing as at		
	31 August 2025 (Chq. 658)		

Exercise 4.8 GST Clearing Account

a

Explanation	*Given that selling prices exceed cost prices, it is normal for the GST Clearing ledger to be in credit at the end of the period. If, however, the ledger has a debit balance, this indicates that more GST was paid than received during the period. This is most likely due to the purchase of an expensive Non-Current Asset, or the bulk purchase of Inventory that has not yet been sold.*

b

Calculation	*Sales Revenue = (63 + 85) x 10 = $1 480*	
	Sales revenue	**$** *1 480*

c General Ledger

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 1	Balance	240	Mar. 5	Bank	63
6	Bank	35	27	Bank	85
14	Bank	12	*31*	*Balance*	*179*
22	Bank	21			
28	Bank	19			
		327			*327*
1 Apr	*Balance*	*179*			

d

Explanation	*GST Clearing would be reported as a Current Asset of $179 as it is a present economic resource controlled by the entity, as a result of past events, which is reasonably expected to be converted to cash within the next 12 months (when it is received from the ATO).*

e

General Journal

Date	Account	Debit $	Credit $
6 Apr	*Bank*	*179*	
	GST Clearing		*179*
	GST refund from the ATO for balance owing as at 31 March		
	2025 (EFT Ref.22101)		

Exercise 4.9 Cash Transactions

a

Calculation	*Capital = Assets less Liabilities* *Total assets = $23 000* *Total liabilities = $1 900 + 520 = $2 420* *Capital = $20 580*
Capital	**$** *20 580*

b **General Journal**

Date	Account	Debit $	Credit $
2 Feb	*Bank*	*15 000*	
	Loan – QPR Bank		*15 000*
5 Feb	*Shop Fittings*	*3 500*	
	GST Clearing	*350*	
	Bank		*3 850*
9 Feb	*Wages*	*420*	
	Bank		*420*
12 Feb	*Inventory*	*800*	
	GST Clearing	*80*	
	Bank		*880*
15 Feb	*Bank*	*2 530*	
	Sales		*2 300*
	GST Clearing		*230*
	Cost of Sales	*1 150*	
	Inventory		*1 150*
17 Feb	*Drawings*	*300*	
	Bank		*300*
21 Feb	*Rent*	*820*	
	GST Clearing	*82*	
	Bank		*902*

b (continued) **General Journal**

26 Feb	*Inventory*	*720*	
	GST Clearing	*72*	
	Bank		*792*
29 Feb	*Bank*	*2 200*	
	Sales		*2 000*
	GST Clearing		*200*
	Cost of Sales	*1 000*	
	Inventory		*1 000*

c General Ledger

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Feb	*Loan – QPR Bank*	*15 000*	*1 Feb*	*Balance*	*1 900*
15 Feb	*Sales/GST Clearing*	*2 530*	*5 Feb*	*Fittings/GST Clearing*	*3 850*
29 Feb	*Sales/GST Clearing*	*2 200*	*9 Feb*	*Wages*	*420*
			12 Feb	*Inventory/GST Clearing*	*880*
			17 Feb	*Drawings*	*300*
			21 Feb	*Rent/GST Clearing*	*902*
			26 Feb	*Inventory/GST Clearing*	*792*
	10 686				
		19 730			*9 044*

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Feb	*Balance*	*23 000*	*15 Feb*	*Cost of Sales*	*1 150*
12 Feb	*Bank*	*800*	*29 Feb*	*Cost of Sales*	*1 000*
26 Feb	*Bank*	*720*			
	22 370				
		24 520			*2 150*

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Feb	*Bank*	*350*	*1 Feb*	*Balance*	*520*
12 Feb	*Bank*	*80*	*15 Feb*	*Bank*	*230*
21 Feb	*Bank*	*82*	*29 Feb*	*Bank*	*200*
26 Feb	*Bank*	*72*			
				366	
		584			*950*

Loan – QPR Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Feb	*Bank*	*15 000*

Shop Fittings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Feb	*Bank*	*3 500*			

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
9 Feb	*Bank*	*420*			

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			15 Feb	*Bank*	*2 300*
			29 Feb	*Bank*	*2 000*
				4 300	

Cost of Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
15 Feb	*Inventory*	*1 150*			
29 Feb	*Inventory*	*1 000*			
	2 150				

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
17 Feb	*Bank*	*300*			

Rent

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
21 Feb	*Bank*	*820*			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Feb	*Balance*	*20 580*

d PETA ANTHONY

Trial Balance as at 29 February 2025

Account	Debit $	Credit $
Bank	*10 686*	
Inventory	*22 370*	
GST Clearing		*366*
Loan – QPR Bank		*15 000*
Shop Fittings	*3 500*	
Wages	*420*	
Sales		*4 300*
Cost of Sales	*2 150*	
Drawings	*300*	
Rent	*820*	
Capital		*20 580*
Total	***40 246***	***40 246***

e PETA ANTHONY

Income Statement for February 2025

	$	$
REVENUES		
Cash Sales		*4 300*
LESS: COST OF GOODS SOLD		
Cost of Sales		*2 150*
GROSS PROFIT		***2 150***
LESS: OTHER EXPENSES		
Wages	*420*	
Rent	*820*	***1 240***
NET PROFIT		***910***

f

Discussion	*Due to having a higher cost price of inventory, Peta Anthony will need to charge a higher selling price. This may put her business at a competitive disadvantage to her competitors who may be able to charge less. A decrease in volume of sales would lead to a reduced Net Profit.* *The higher cost price of inventory will also lead to a higher Cost of Sales expense when the inventory is sold, decreasing Net Profit.* *However, Peta is showing support of her own and other business' employees whose livelihoods are dependent on fair working conditions. This may lead to an increase in productivity from her own staff who view their employer as fair and equitable. An increased productivity may lead to increased sales volume and overall higher employee satisfaction.* *In addition, customers may look favourably towards Peta's decision and may be willing to pay more for ethically sourced inventory.*

g PETA ANTHONY

Balance Sheet as at 29 February 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank	*10 686*		*GST Clearing*	*366*	
Inventory	*22 370*	*33 056*	*Loan – QPR Bank*	*6 000*	*6 366*
Non-Current Assets			***Non-Current Liabilities***		
Shop Fittings	*3 500*	*3 500*	*Loan – QPR Bank*		*9 000*
			Owner's Equity		
			Capital – P. Anthony	*20 580*	
			Add: Cap. Contribution	*0*	
			Less: Drawings	*(300)*	
			Add: Net Profit	*910*	*21 190*

Total Assets	***$***	***36 556***	***Total Equities***	***$***	***36 556***

h

Explanation	*The Shop Fittings are recorded at their original purchase price which is verifiable by the source document evidence on Chq. 613. By recording this Non-Current Asset at the price paid, it ensures that the value of Total Assets are accurate and free from bias or material error.*

Exercise 4.10 Cash Transactions

a

Explanation	*The Accounting Entity assumption states that the records of assets, liabilities and business activities of the entity are to be kept completely separate from those of the owner. The drawings is an internal transaction between the business and its owner, and will reduce the owner's claim on the firm's assets.*

b

General Journal

Date	Account	Debit $	Credit $
7 July	*GST Clearing*	*1 700*	
	Bank		*1 700*
	GST settlement paid to ATO for balance owing as at		
	30 June 2025 (Chq. 9001)		
12 July	*Bank*	*1 760*	
	Sales		*1 600*
	GST Clearing		*160*
	Cost of Sales	*800*	
	Inventory		*800*
	Cash sale of inventory for $1 600 plus GST (Rec. 320)		
19 July	*Electricity*	*630*	
	GST Clearing	*63*	
	Bank		*693*
	Payment of Electricity bill (Chq. 9002)		

c

Explanation	*Assets will increase by $650 as Bank will increase by $1 650 but is offset by the decrease to Inventory of $1 000* *Liabilities will increase by $150 as the business now has a present obligation to forward this GST to the ATO* *Owner's Equity will increase by $500 as Sales revenues will increase by $1 500 but is offset by the increase to Cost of Sales expense by $1 000*

d General Ledger

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 July	*Balance*	*4 700*	*3 July*	*Drawings*	*500*
12 July	*Sales/GST Clearing*	*1 760*	*7 July*	*GST Clearing*	*1 700*
21 July	*Sales/GST Clearing*	*1 650*	*14 July*	*Inventory/GST Clearing*	*715*
			19 July	*Electricity/GST Clearing*	*693*
			27 July	*Drawings*	*300*
			30 July	*Inventory/GST Clearing*	*572*
			31 July	*Balance*	*3 630*
		8 110			*8 110*
1 Aug	*Balance*	*3 630*			

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
7 July	*Bank*	*1 700*	*1 July*	*Balance*	*1 700*
14 July	*Bank*	*65*	*12 July*	*Bank*	*160*
19 July	*Bank*	*63*	*21 July*	*Bank*	*150*
30 July	*Bank*	*52*			
31 July	*Balance*	*130*			
		2 010			*2 010*
			1 Aug	*Balance*	*130*

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 July	*Balance*	*25 000*	*12 July*	*Cost of Sales*	*800*
14 July	*Bank*	*650*	*19 July*	*Cost of Sales*	*1 000*
30 July	*Bank*	*520*	*31 July*	*Balance*	*24 370*
		26 170			*26 170*
1 Aug	*Balance*	*24 370*			

e

Explanation	*Inventory would be reported as a Current Asset of $24 370 as it is a present economic resource controlled by the entity, as a result of past events, which is reasonably expected to be converted to cash within the next 12 months (when the Inventory is sold).*

f

Discussion	*The owner is incorrect in their assertion as GST does not simply equate to 10% of the bank balance.* *In addition to applying to cash sales and purchases of inventory, GST will also apply to the transaction on 19 July – the payment of the business' electricity bill.* *Furthermore, GST does not apply to all transactions that involve the bank account, in particular, the drawings that occurred on 3 July and 27 July.* *The business has an obligation to record any information that is Relevant towards decision making and forming predictions about the outcomes of events. By recording this Current Liability in the Balance Sheet, the owner and other users of the financial reports have necessary information about their present obligations and can tailor their cash flow activities accordingly.* *Failing to record this Current Liability would result in a Balance Sheet that is not Faithfully Represented nor free from bias or material error.*

Exercise 5.1 Credit Purchase

a

Document	*Purchase invoice*
Transaction	*Credit purchase of 10 tea sets (from Fine Tea China)*

b

General Journal

Date	Details	Debit $	Credit $
May 4	*Inventory*	*1 200*	
	GST Clearing	*120*	
	Account Payable – Fine Tea China		***1 320***
	Credit purchase of 10 tea sets from Fine Tea China		
	(Invoice S.90)		

c

General Ledger

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 4	*Account Payable – Fine Tea China*	*1 200*			

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 4	*Account Payable – Fine Tea China*	*120*			

Account Payable – Fine Tea China (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			May 4	*Inventory / GST Clearing*	***1 320***

d

Explanation	*It does not provide an economic benefit **when the inventory is sold**:*
	it reduces the debt owed to the ATO (on the day the inventory is purchased).
	Ie. the benefit is received when the GST refund / settlement occurs.

e

	Increase / Decrease / No effect	Amount $
Assets	Increase (Inventory)	1 200
Liabilities	Increase (**Increase Accounts Payable $1 320**; decrease GST Clearing $120)	2 250
Owner's Equity	No effect	

f

Explanation	*Purchasing inventory that is produced in a socially and/or environmentally*
	responsible manner way may generate sales as customers may be more
	willing to purchase these items.
	(It could also mean higher cost prices and less Gross Profit per sale.)

Exercise 5.2 Credit Purchases

a **General Journal**

Date	Details	Debit $	Credit $
Aug. 5	*Inventory*	*12 000*	
	GST Clearing	*1 200*	
	Account Payable – Yamaha		*13 200*
	Credit purchase of 3 grand pianos from Yamaha		
	(Invoice Yh3764)		
Aug. 8	*Inventory*	*3 000*	
	GST Clearing	*300*	
	Account Payable – Yamaha		*3 300*
	Credit purchase of 3 upright pianos from Yamaha		
	(Invoice Yh4801)		
Aug. 15	*Bank*	*13 200*	
	Sales		*12 000*
	GST Clearing		*1 200*
	Cost of Sales	*8 000*	
	Inventory		*8 000*
	Cash sale of 2 grand pianos (Receipt 301)		
Aug. 24	*Inventory*	*2 000*	
	GST Clearing	*200*	
	Bank		*2 200*
	Cash purchase of 1 special model piano		
	(EFT trans. 430)		
Aug. 28	*Inventory*	*15 600*	
	GST Clearing	*1 560*	
	Account Payable – Yamaha		*17 160*
	Credit purchase of 4 grand pianos from Yamaha		
	(Invoice Yh5132		

b

Explanation	*Because they are issued by the suppliers of Phil's Pianos (eg. Yamaha)*
	who will also issue them to their other customers (between transactions with
	Phil's Pianos).

c

Explanation	*Assets will increase $12 000 due to the inventory that has been bought;*
	Liabilities will decrease $12 000 overall as although
	GST Clearing will decrease $1 200 as this will eventually be paid to the ATO
	by the supplier (Yamaha) on behalf of Phil's Pianos but
	the amount owed to Account Payable – Yamaha will increase by $13 200 for
	the Inventory and the GST on the purchase.

d

Explanation	*Going concern assumes that the business will continue to operate into the*
	future, meaning:
	inventory can be recognised as an asset (that will produce economic benefits);
	and
	the Account Payable can be recognised as a liability (that will be settled)
	at some time in the future.

e

Calculation

Sales	*$12 000*	*(2 x $6 000)*
less Cost of Sales	*$8 000*	*(2 x $4 000)*
Gross Profit	*$4 000*	

Gross Profit | **$** *4 000*

f

Explanation	*It is a cash purchase as it is verified by an EFT transaction receipt (430),*
	so Inventory increases and GST Clearing decreases, but
	Bank decreases (instead of Accounts Payable).

g

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	*Balance*	*3 800*	*Aug. 24*	*Inventory / GST Clearing*	*2 200*
15	*Sales / GST Clearing*	*13 200*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	*Balance*	*76 000*	*Aug. 15*	*Cost of Sales*	*8 000*
5	*Account Payable – Yamaha*	*12 000*			
8	*Account Payable – Yamaha*	*3 000*			
24	*Bank*	*2 000*			
28	*Account Payable – Yamaha*	*15 600*			

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5	*Account Payable – Yamaha*	*1 200*	*Aug. 1*	*Balance*	*1 500*
8	*Account Payable – Yamaha*	*300*	*15*	*Bank*	*1 200*
24	*Bank*	*200*			
28	*Account Payable – Yamaha*	*1 560*			

Account Payable – Yamaha (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 1	*Balance*	*1 000*
			5	*Inventory / GST Clearing*	*13 200*
			8	*Inventory / GST Clearing*	*3 300*
			28	*Inventory / GST Clearing*	*17 160*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 15	*Bank*	*12 000*

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 15	*Inventory*	*8 000*			

Exercise 5.3 Credit Purchases and Payments to Accounts Payable

a

Feature 1	*It says 'For: Payment to Account Payable'*
Feature 2	*It notes 'Date of payment', and 'To: Shock Electrics'*

b

Explanation	*It is a payment to an Account Payable*
	but GST is charged at the point of purchase ie. when the credit purchase is
	made.
	(This would be double-counting GST.)

c

General Journal

Date	Details	Debit $	Credit $
Nov. 2	*Account Payable – Shock Electrics*	*800*	
	Bank		*800*
	Payment to Shock Electrics (EFT rec. 563 099)		
13	*Inventory*	*5 400*	
	GST Clearing	*540*	
	Account Payable – Yamaha		*5 940*
	Credit purchase inventory from Shock Electrics		
	(Invoice 553)		

d

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	*Balance*	*1 000*	*Nov. 2*	*Account Payable – Shock Electrics*	*800*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	*Balance*	*80 000*			
13	*Account Payable – Shock Electrics*	*5 400*			

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 13	*Account Payable – Shock Electrics*	*540*	*Aug. 1*	*Balance*	*1 700*

Account Payable – Shock Electrics (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 2	*Bank*	*800*	*Nov. 1*	*Balance*	*1 320*
			13	*Inventory / GST Clearing*	*5 940*

e

Explanation	*Inventory increases as more inventory has been purchased*
	Accounts Payable increases as Glow Warm must pay for the Inventory
	and the GST owing
	GST Clearing decreases as Shock Electrics will forward this amount to the
	ATO.

f

Explanation	*Information must be available to decision makers in time to influence their decision making, and generally the older the information the less useful it is. Ideally this information would become available in September while the poor quality inventory was still on hand so that Glow Warm could examine the items before they were sold. (Glow Warm could still check its existing inventory and hold any items delivered in September until it knows more.)*

g

Discussion	*Glow Warm has not received confirmation that the products are faulty and so could choose to continue selling those items as usual.* *However, this runs the risk of selling inventory which it knows could be faulty which could be argued to unethical. Further, these items are electrical goods and could be dangerous and cause harm to the consumers. In the longer term this could cause reputational harm and jeopardise the firm's future.* *Alternatively, Glow Warm could remove from sale any remaining inventory and recall any of the items it has already sold (and replace them or issue a refund to the customer).* *However, this would decrease profit and could still harm the firm's reputation (and it is not yet confirmed that the products are faulty).*

Exercise 5.4 Purchase Return

a

Document	*Credit note*
Transaction	*Purchase return of 2 saxophones (to Musical Mayhem) due to damage*

b

General Journal

Date	Details	Debit $	Credit $
Feb. 8	***Account Payable – Muscial Mayhem***	***1 100***	
	Inventory		*1 000*
	GST Clearing		*100*
	Purchase return of 2 saxophones to Musical Mayhem		
	due to damage (Credit note 480)		

c

General Ledger

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 1	*Balance*	*43 000*	*Feb. 2*	*Account Payable – Musical Mayhem*	*1 000*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Feb. 1	*Balance*	*960*
			2	*Account Payable – Musical Mayhem*	*100*

Account Payable – Musical Mayhem (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 2	*Inventory / GST Clearing*	***1 100***	*Feb. 1*	*Balance*	*23 000*

d

Explanation	*It increases*
	as this GST will no longer be forwarded to the ATO by the supplier (Musical
	Mayhem)
	so it must be paid / is owed by Mentone Music Shop.

e

Explanation	*Because it will generate trust from the supplier (Musical Mayhem)*
	helping Mentone Music Shop to obtain good quality inventory at good prices,
	and allow them to return items when for legitimate reasons without having to
	resort to a (time consuming and costly) legal course of action.

Exercise 5.5 Purchases, Payments and Returns

a

Document	*Cheque butt / EFT transfer receipt / ATM receipt / Bank Statement*

b

General Journal

Date	Details	Debit $	Credit $
April 5	*Inventory*	*1 600*	
	GST Clearing	*160*	
	Account Payable – Freezing Fridges		*1 760*
April 11	*Account Payable – Freezing Fridges*	*8 000*	
	Bank		*8 000*
April 18	*Bank*	*3 300*	
	Sales		*3 000*
	GST Clearing		*300*
	Cost of Sales	*1 200*	
	Inventory		*1 200*
April 26	*Inventory*	*2 100*	
	GST Clearing	*210*	
	Account Payable – Freezing Fridges		*2 310*
April 26	*Account Payable – Freezing Fridges*	*462*	
	Inventory		*420*
	GST Clearing		*42*

c

General Ledger

Account Payable – Freezing Fridges (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
April 11	*Bank*	*8 000*	*April 1*	*Balance*	*8 000*
29	*Inventory / GST Clearing*	*462*	*6*	*Inventory / GST Clearing*	*1 760*
			26	*Inventory / GST Clearing*	*2 310*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
April 6	*Account Payable – Freezing Fridges*	*160*	*April 1*	*Balance*	*350*
26	*Account Payable – Freezing Fridges*	*210*	*18*	*Bank*	*300*
			29	*Account Payable – Freezing Fridges*	*420*

d

Explanation	*Assets will decrease $420 due to the inventory that has been returned to*
	the supplier;
	Liabilities will decrease $420 overall as although
	the amount owed to Account Payable – Freezing Fridges will decrease $462
	for the Inventory which has been returned and the GST on the return,
	GST Clearing will increase $42 as this amount is owed / must now be paid to
	the ATO by Benny Electricals.

e

Explanation	*As a current liability*
	because it is a present obligation to transfer an economic resource (cash),
	and this will be settled (when the cash is paid to the Account Payable)
	sometime in the next 12 months.

Exercise 5.6 Discount Revenue

a

Explanation	*To entice them to pay early*
	therefore increasing the cash they have available to meet their own cash
	commitments (such as paying Accounts Payable or Wages).

b

Explanation	*Because the terms of the purchase were 10/7, n/60, meaning a discount is*
	available if they pay within 7 days of the purchase.
	The purchase occurred on 31 January 2025 and the payment is made less
	than 7 days later on 5 February 2025.

c

Calculation

	Amount owing	*$1 870*
-	*Amount paid*	*1 683*
	Discount revenue	*187*

Discount revenue $ *187*

d

General Journal

Date	Details	Debit $	Credit $
Feb. 5	*Account Payable – J&M Papermills*	*1 870*	
	Bank		*1 683*
	Discount revenue		*187*
	Payment to Account Payable after discount of 10%		
	(Ch. 100 325)		

e

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 1	*Balance*	*1 000*	*Feb. 5*	*Account Payable – J&M Papermills*	*1 683*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 15	*Account Payable – J&M Papermills*	*250*	*Feb. 1*	*Balance*	*390*

Account Payable – J&M Papermills (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 5	*Bank / Discount revenue*	*1 870*	*Feb. 1*	*Balance*	*1 870*
			15	*Inventory / GST Clearing*	*2 750*

Discount revenue (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Feb. 5	*Account Payable – J&M Papermills*	*187*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 1	*Balance*	*1 000*			
15	*Account Payable – J&M Papermills*	*2 500*			

f

Explanation	*It causes a decrease in liabilities (Accounts Payable) and an increase in*
	Owner's equity, and is earned in February 2025 (when the payment is made).

g

Explanation	*The GST is charged on the value of the inventory purchased ($1 700)*
	whereas the discount is charged on the amount owing ($1 870)
	which includes the $1 700 for the inventory ***plus*** *the $170 GST on the*
	purchase.

Exercise 5.7 Discount Revenue

a

Explanation	*This will breach* ***Verifiability****, meaning that the transactions cannot be*
	checked against the source document to ensure that the information as
	recorded accurately.
	This means there is less confidence that the reports provide a ***Faithful***
	representation *of the firm's position, as it cannot be proven that the records*
	are complete, free from error and neutral (without bias).

b

General Journal

Date	Details	Debit $	Credit $
June 3	*Account Payable – Freezing Fridges*	*15 950*	
	Bank		*14 674*
	Discount revenue		*1 276*
12	*Inventory*	*8 000*	
	GST Clearing	*800*	
	Account Payable – Carter Diamonds		*8 800*
12	*Display cabinets*	*5 500*	
	GST Clearing	*550*	
	Bank		*6 050*
17	*Account Payable – Carter Diamonds*	*1 650*	
	Inventory		*1 500*
	GST Clearing		*150*
23	*Bank*	*9 900*	
	Sales		*9 000*
	GST Clearing		*900*
	Cost of Sales	*6 000*	
	Inventory		*6 000*

c

	Increase / Decrease / No effect	Amount $
Assets	Decrease (Bank)	14 674
Liabilities	Decrease (Accounts Payable)	15 950
Owner's Equity	Increase (Discount revenue)	1 276

d/e

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*22 900*	*June 3*	*Account Payable – Carter Diamonds*	*14 674*
5	*Sales / GST Clearing*	*13 200*	*8*	*Wages*	*1 200*
23	*Sales / GST Clearing*	*9 900*	*12*	*Bank / GST Clearing*	*6 050*
			14	*Inventory / GST Clearing*	*4 950*
			20	*Account Payable – Carter Diamonds*	*6 578*
			26	*Drawings*	*1 000*
			30	*Electricity / GST Clearing*	*253*
				Balance	*11 295*
		46 000			*46 000*
July 1	*Balance*	*11 295*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*74 500*	*June 1*	*GST Clearing*	*1 700*
12	*Account Payable – Carter Diamonds*	*8 000*	*5*	*Cost of Sales*	*8 000*
14	*Bank*	*4 500*	*17*	*Account Payable – Carter Diamonds*	*1 500*
29	*Account Payable – Carter Diamonds*	*10 000*	*23*	*Cost of Sales*	*6 000*
			30	*Balance*	*79 800*
		97 000			*97 000*
July 1	*Balance*	*79 800*			

Display cabinets (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*35 000*			
12	*Bank*	*5 500*			

Account Payable – Carter Diamonds (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 3	*Bank / Discount revenue*	*15 950*	*June 1*	*Balance*	*15 950*
17	*Inventory / GST Clearing*	*1 650*	*12*	*Inventory / GST Clearing*	*8 800*
20	*Bank / Discount revenue*	*7 150*	*29*	*Inventory / GST Clearing*	*11 000*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Bank*	*1 700*	*June 1*	*Balance*	*1 700*
12	*Account Payable – Carter Diamonds*	*800*	*5*	*Bank*	*1 200*
	Bank	*550*	*17*	*Account Payable – Carter Diamonds*	*150*
14	*Bank*	*450*	*23*	*Bank*	*900*
29	*Account Payable – Carter Diamonds*	*1 000*	*30*	*Balance*	*573*
30	*Bank*	*23*			
		4 523			*4 523*
July 1	*Balance*	*573*			

Discount revenue (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			June 3	*Account Payable – Carter Diamonds*	*1 276*
			20	*Account Payable – Carter Diamonds*	*572*

Sales (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			June 5	*Bank*	*12 000*
			23	*Bank*	*9 000*

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 5	*Inventory*	*8 000*			
23	*Inventory*	*6 000*			

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 8	*Bank*	*1 200*			

Drawings (-OE)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 26	*Bank*	*1 000*			

Electricity (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Bank*	*230*			

f

Explanation *As a Current asset because the Debit balance indicates a debt owed to the business by the ATO (as GST on purchases is greater than GST on sales) meaning it is a present economic resource controlled by the business which is expected to be received as cash within the next 12 months (as a GST refund).*

Exercise 5.8 Accounts Payable

a

Document	*Credit note (issued by the supplier)*

b

Reason 1	*Wrong size / type / colour / quantity*
Reason 2	*Damaged*

c

General Ledger

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*42 000*		*Cost of Sales*	*60 000*
	Account Payable – Wilson Industries	*50 000*		*Account Payable – Wilson Industries*	*1 000*
	Bank	*3 000*			

Account Payable – Wilson Industries (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Bank / Discount revenue	*60 000*	*Oct. 1*	*Balance*	*34 000*
	Inventory / GST Clearing	*1 100*		*Inventory / GST Clearing*	*55 000*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Account Payable – Wilson Industries	*5 000*	*Oct. 1*	*Balance*	*800*
	Bank	*300*		*Bank*	*9 000*
	Bank	*2 500*		*Account Payable – Wilson Industries*	*100*

d

Calculation

Discount amount	*$600*		
Reduction in Accounts Payable	*$60 000 **	*= 0.01*	** 59 400 + 600*
Discount rate	*0.01*	*x 100*	
=	*1%*		

Discount rate *1* **%**

e

Explanation	*Because it gives the business time to sell the inventory and collect the cash*
	before cash must be paid to the Account Payable.
	This means the business does not have to rely on cash reserves and is more
	likely to have cash available when needed.

f

Discussion	*Paying early means Thommo's Toys earns Discount revenue,*
	which reduces the amount of cash it has to pay and also increases Net Profit.
	However, the rate is so low (1%) that these benefits are small, and by paying
	early Thommo's Toys does not have the cash to use to make other payments.
	The benefits in this case may be too small to justify the costs.

Exercise 5.9 Accounts Payable

a

Calculation

Discount amount	*$198*		
Reduction in Accounts Payable	*$3 300 **	*= 0.06*	** Balance owing*
Discount rate	*0.06*	*x 100*	
=	*6%*		

Discount rate | *6* **%**

b

General Journal

Date	Details	Debit $	Credit $
June 3	*Account Payable – Look of the Irish*	*3 300*	
	Bank		*3 102*
	Discount revenue		*198*
	Payment to Account Payable after discount of 6%		
	(Cheque 143)		
12	*Inventory*	*1 200*	
	GST Clearing	*120*	
	Account Payable – Look of the Irish		*1 320*
	Credit purchase of inventory from Look of the Irish		
	(Invoice MH 365)		

c

Explanation *Assets will decrease $200 due to the inventory that has been returned to the supplier;*
Liabilities will decrease $200 overall as although the amount owed to Account Payable – Look of the Irish will decrease $220 for the Inventory which has been returned and the GST on the return, GST Clearing will increase $20 as this amount is owed / must now be paid to the ATO by Celtic Sensations.

d

General Ledger

Account Payable – Look of the Irish (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 3	*Bank / Discount revenue*	*3 300*	*June 1*	*Balance*	*3 300*
19	*Inventory / GST Clearing*	*220*	*12*	*Inventory / GST Clearing*	*1 320*
24	*Bank*	*500*	*29*	*Inventory / GST Clearing*	*1 650*
30	*Balance*	*2 250*			
		6 270			*6 270*
			July 1	*Balance*	*2 250*

e

Explanation	*As a current liability, Account Payable – Look of the Irish*
	because it is a present obligation to transfer an economic resource (cash),
	and this will be settled (when the cash is paid to Look of the Irish)
	sometime in the next 12 months.

f

Explanation	*As a Current asset, Account Receivable – Celtic Sensations*
	because it is a present economic resource controlled by Look of the Irish
	which they expect to receive as cash within the next 12 months.

g

Explanation	*It supports* ***Verifiability*** *as it can be checked against the ledger account for*
	Account Payable – Look of the Irish in the General Ledger of Celtic Sensations
	as well as the original source documents for each transaction.
	This can ensure that the information is complete, free form error and neutral
	(without bias), and therefore provides a ***Faithful representation*** *of the firm's*
	financial events and position.

Exercise 5.10 Accounts Payable Turnover

a

Measures	*average number of days taken to pay Accounts Payable (thereby indicating*
	the effectiveness of the management of Accounts Payable).

b

Calculation

$$APTO = \frac{\text{Average Accounts Payable}}{\text{Net Credit purchases (plus GST)}} \times 365$$

$$\frac{(\$12\,000 + \$8\,000) / 2}{\$91\,300 - \$7\,150} \times 365$$

$$= \frac{\$10\,000}{\$84\,150} \times 365$$

= *44* days (43.4 rounded up to the nearest day)*

Accounts Payable Turnover	*44*	**days**

c

Reason 1	*Greater than credit terms offered by suppliers (40 days)*
Reason 2	*Slower than previous year (2024 – 38 days)*

d

Explanation	*It could mean a loss of credit facilities, meaning*
	the business would have to have cash on hand to purchase inventory.
	This could have negative effects on liquidity as the cash a) may not be
	available, leading to an inability to purchase or a bank overdraft, or
	b) the cash would not be available to use to make other payments such as
	Wages and other expenses, loan repayments or drawings.

e

Action 1	*Increase cash sales / collections from Accounts Receivable so cash is*
	available to pay Accounts Payable.
Action 2	*Contact the Accounts Payable to negotiate an extended period to pay*

Exercise 5.11 Accounts Payable Turnover

a

Trend	*During 2024 Accounts Payable Turnover was marginally slower than 2023*
	but also slower than the 60 day credit terms offered by suppliers.
	This presents risks for the continuation of credit facilities.
	In 2025 Accounts Payable Turnover was not only faster than 2024 but also
	faster than the credit terms offered by suppliers, falling to around 45 days.
	It has therefore fluctuated across the three years, but the most recent trend is
	towards faster Accounts Payable Turnover

b

Reason 1	*Less cash available to pay Accounts Payable on time, perhaps due to lower*
	sales or receipts from Accounts Receivable, or higher other payments.
Reason 2	*Deliberate decision by Sam to delay payments until well after thte due date,*
	perhaps because there is no follow up from the Accounts Payable.

c

Explanation	*Action: reminder calls, letters; refusal to provide credit; threat of legal action*
	which would have prompted Sam to pay on time (and even early).
	NB. ***Not*** *discounts (see additional information).*

d

Explanation	*It is greater than the 60 day credit terms offered by the suppliers,*
	meaning they may choose to withdraw credit facilities.

e

Discussion	*Paying after the due date will mean Sam's Moulds retains cash for longer. This can then be used to make other payments (such as Wages and other expenses, loan repayments and drawings). In addition, there is no discount revenue to be earned from early payment.*
	However, paying late could mean Accounts Payable refuse to supply on credit, meaning inventory must be purchased using cash. This would place greater pressure on cash flows, as cash would need to be paid before it had been generated from sales. Cash may not be available, leading to the need for a bank overdraft or a contribution by the owner, or it could mean cash is not available for other uses.

f

Discussion	*Given there is no discount to be earned Sam should be delaying payments to Accounts Payable as long as possible, thereby retaining cash to be used for other purposes. This would be both financially and ethically responsible.*
	Delaying payments beyond the credit terms may be both, or neither.
	At times it may be necessary to delay payments because cash is not available, or required for urgent purposes like paying employees. If this was only occasional it could be argued to be both financially and ethically responsible.
	However, regularly delaying payments beyond the credit terms is not adhering to the terms of the agreement and could be argued to be unethical.
	Further, the damage to the relationship with the Account Payable may have negative financial consequences especially if the supplier refuses further credit and the business is forced to use cash to purchase inventory, leading to a negative effect on liquidity.

Exercise 6.1 Credit Sale

a

Document	*Sales invoice*
Transaction	*Credit sale of 12 sheet sets (to Country Inn)*

b

Explanation	*If the cash is received from the customer within 7 days a 6% discount is given*
	but the full ('net') amount is due within 30 days.

c

Calculation

Selling price = CP x (1 + M/up)

720 = CP x (1 + 1)

CP = 720 / 2

Cost price | **$** *360*

d

General Journal

Date	Details	Debit $	Credit $
May 4	***Account Receivable – Country Inn***	***792***	
	Sales		*720*
	GST Clearing		*72*
	Cost of Sales	*360*	
	Inventory		*360*
	Credit sale of 12 sheet sets to Country Inn		
	(Invoice 90)		

e

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Balance*	*13 000*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Balance*	*50 000*	*May 4*	*Cost of Sales*	*360*

Account Receivable – Country Inn (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Balance*	*400*			
4	*Sales / GST Clearing*	***792***			

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			May 1	*Balance*	*600*
			4	Account Receivable – Country Inn	*72*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			May 4	Account Receivable – Country Inn	*720*

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 4	*Inventory*	*360*			

f

	Increase / Decrease / No effect	Amount $
Assets	*Increase (**Increase Accounts Receivable $792;** decrease Inventory $360)*	*432*
Liabilities	*Increase (GST Clearing)*	*72*
Owner's Equity	*Increase (Sales $720 less Cost of Sales $360 increases Net Profit)*	*360*

g

Explanation	*The GST is charged, and will be collected, on behalf of the ATO*
	therefore Deco Décor has a present obligation to transfer an economic
	resource (cash) to the ATO by paying the GST settlement.

Exercise 6.2 Credit Sales

a

Number	*(Invoice) 76*

b

General Journal

Date	Details	Debit $	Credit $
Sept. 3	*Account Receivable – Rydell PS*	*528*	
	Sales		*480*
	GST Clearing		*48*
	Cost of Sales	*320*	
	Inventory		*320*
	Credit sale of 2 bookcases to Rydell PS		
	(Invoice 75)		
Sept. 11	*Bank*	*1 980*	
	Sales		*1 800*
	GST Clearing		*180*
	Cost of Sales	*1 200*	
	Inventory		*1 200*
	Cash sale of 3 beds (Receipt 55)		
Sept. 16	*Inventory*	*900*	
	GST Clearing	*90*	
	Account Payable – Pine Products		*990*
	Credit purchase of 5 desks from Pine Products		
	(Invoice A310)		
Sept. 23	*Account Receivable – Rydell PS*	*2 640*	
	Sales		*2 400*
	GST Clearing		*240*
	Cost of Sales	*1 600*	
	Inventory		*1 600*
	Credit sale of 4 beds to Rydell PS		
	(Invoice 76)		

b (continued) **General Journal**

Date	Details	Debit $	Credit $
Sept. 29	*Account Receivable – Rydell PS*	*297*	
	Sales		*270*
	GST Clearing		*27*
	Cost of Sales	*180*	
	Inventory		*180*
	Credit sale of 1 desk to Rydell PS		
	(Invoice 77)		

c

Explanation	*Assets increase $208 because*
	Accounts Receivable increases $528 as Rydell PS owes Polly Junior for the
	Sale plus the GST, but Inventory decreases $320 as the bookcases go out.
	Liabilities increase $48 as Polly Junior has an obligation to pay the GT on the
	sale to the ATO.
	Owner's equity increases $160 for the profit on the sale (Sales $480 less Cost
	of Sales $320).

d

Explanation	*It is a cash sale as it is verified by Receipt 55*
	so it is debited to Bank (rather than Accounts Receivable).
	The remaining entries are the same as for a credit sale.

e

General Ledger

Bank (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 11	*Sales / GST Clearing*	*1 980*	*Sept. 1*	*Balance*	*2 000*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 1	*Balance*	*43 000*	*Sept. 3*	*Cost of Sales*	*320*
16	*Accounts Payable – Pine Products*	*900*	*11*	*Cost of Sales*	*1 200*
			23	*Cost of Sales*	*1 600*
			29	*Cost of Sales*	*180*

Account Receivable – Rydell PS (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 1	*Balance*	*500*			
3	*Sales / GST Clearing*	*528*			
23	*Sales / GST Clearing*	*2 640*			
29	*Sales / GST Clearing*	*297*			

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 16	*Accounts Payable – Pine Products*	*90*	*Sept. 1*	*Balance*	*800*
			3	Account Receivable – Rydell PS	*48*
			11	Bank	*180*
			23	Account Receivable – Rydell PS	*240*
			29	Account Receivable – Rydell PS	*27*

Account Payable – Pine Products (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Sept. 1	*Balance*	*400*
			16	*Inventory / GST Clearing*	*990*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Sept. 3	Account Receivable – Rydell PS	*480*
			11	Bank	*1 800*
			23	Account Receivable – Rydell PS	*240*
			29	Account Receivable – Rydell PS	*270*

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 3	*Inventory*	*320*			
11	*Inventory*	*1 200*			
23	*Inventory*	*1 600*			
29	*Inventory*	*180*			

f

Explanation *As a Current liability as it is a present obligation to transfer economic resources (cash) when the GST settlement is paid to the ATO in the next 12 months.*

Exercise 6.3 Credit Sales and Receipts from Accounts Receivable

a

Feature 1	*Settlement of account / Receipt number 83 / Received from V. Deo*
Feature 2	*Book Me Danno named at the top as the business receiving the cash*

b

Explanation	*It is a receipt from an Account Receivable*
	GST is charged at the point of sale (when the credit sale is made)
	To recognise GST here would be double counting.

c

Explanation	*This amount was owing on 1 October 2025 and has been received on 15*
	October 2025, more than the 10 days allowed by the credit terms.

d

General Journal

Date	Details	Debit $	Credit $
Oct. 15	*Bank*	*270*	
	Accounts Receivable – V. Deo		*270*
	Received cash from V. Deo for amount owing		
	(Receipt 83)		
23	*Account Receivable – V. Deo*	*572*	
	Sales		*520*
	GST Clearing		*52*
	Cost of Sales	*350*	
	Inventory		*350*
	Credit sale of books to V. Deo (Invoice 152)		
29	*Bank*	*300*	
	Accounts Receivable – V. Deo		*300*
	Received cash from V. Deo towards amount owing		
	(EFT receipt 302)		

e

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*3 000*			
15	*Account Receivable – V. Deo*	*270*			
29	*Account Receivable – V. Deo*	*300*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*26 000*	*Oct. 23*	*Cost of Sales*	*350*

Account Receivable – V. Deo (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*270*	*Oct. 15*	*Bank*	*270*
23	*Sales / GST Clearing*	*572*	*29*	*Bank*	*300*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Oct. 1	*Balance*	*500*
			23	*Account Receivable – V. Deo*	*52*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Oct. 23	*Account Receivable – V. Deo*	*520*

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 23	*Inventory*	*350*			

f

Explanation	*Under the **Accrual basis** assumption revenue is recognised when it is earned*
	(ie. at the point of sale) because this is when the definition of revenue is met.
	On 15 October 2025 there is no revenue earned and therefore no effect on
	profit as no inventory has been provided.
	This receipt from an Account Receivable simply exchanges one asset
	(Accounts Receivable) for another (Bank): there is no overall change in assets.

g

Explanation	*The reports would not be complete and the Accounts Receivable figure would*
	*be inaccurate, and they would ot provide a **Faithful representation** of the*
	firm's position.
	*As a result, they would not include all **Relevant** information capable of making*
	a difference to decision making.

Exercise 6.4 Sales Return

a

Document	*Credit note*
Transaction	*Sales return of 5 children's bibles (by Grant Hugh) due to damage*

b

General Journal

Date	Details	Debit $	Credit $
June 12	*Sales returns*	*250*	
	GST Clearing	*25*	
	Account Receivable – Grant Hugh		***792***
	Inventory	*150*	
	Cost of Sales		*150*
	Sales return of 5 children's bibles by Grant Hugh		
	(Credit note 46)		

c

General Ledger

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*32 000*			
12	*Cost of Sales*	*150*			

Account Receivable – Grant Hugh (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Balance*	*990*	***June 12***	*Sales returns / GST Clearing*	***275***

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 12	Account Receivable – Grant Hugh	*25*	*June 1*	*Balance*	*450*

Sales returns (-R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 12	Account Receivable – Grant Hugh	*250*			

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			June 12	*Cost of Sales*	*150*

d

	Increase / Decrease / No effect	Amount $
Assets	*Decrease* (***Decrease Accounts Receivable $275;*** *increase Inventory $150*)	*125*
Liabilities	*Decrease (GST Clearing)*	*25*
Owner's Equity	*Decrease (Sales returns $250* less *decrease Cost of Sales $150 decreases Net Profit)*	*100*

e

Explanation	*Contact the postal company to determine how the damage occurred and*
	whether compensation is possible / Repair the books so that they may be
	resold / Review handling and wrapping procedures in the store to prevent
	damage in future / Sell the books at a reduced price

f

Discussion	*From a financial perspective, accepting the Sales return will decrease profit.*
	It is not clear when or how the damage was caused, so Pickwick Books
	Books could deny responsibility and refuse the return and advise the customer
	to complain to the the postal company.
	However, this could have legal, ethical and financial consequences.
	Legally, it could be claimed that Pickwick Books has an obligation to prepare
	(wrap) the books so that they are not damaged in the mail, and therefore they
	are legally obliged to accept the return.
	Ethically, if there is doubt as to whether this occurred then Pickwick Books
	should accept the return. This may be particularly the case given Grant
	Hugh has been a customer in the past and may continue to be into the future.
	Financially, there may be a benefit in the longer term from building a reputation
	as a business which looks after its customers (even if the damage was not the
	firm's fault). Pickwick Books could also take up the issue with the postal
	company to see if compensation is available, reducing the financial impact.
	Also, the amount of this return seems small meaning the cost of accepting it
	might be outweighed by the benefits.

Exercise 6.5 Sales, Receipts and Returns

a

Document	*Credit note*

b

Reason	*Sales were made to other Accounts Receivable and invoices issued to them*

c

General Journal

Date	Details	Debit $	Credit $
Sept. 2	*Account Receivable – L. Christopher*	*1 716*	
	Sales		*1 560*
	GST Clearing		*156*
	Cost of Sales	*900*	
	Inventory		*900*
9	*Bank*	*1 000*	
	Account Receivable – L. Christopher		*1 000*
15	*Inventory*	*12 000*	
	GST Clearing	*1 200*	
	Account Payable – Delmonte Suits		*13 200*
21	*Sales returns*	*520*	
	GST Clearing	*52*	
	Account Receivable – L. Christopher		*572*
	Inventory	*300*	
	Cost of Sales		*300*
29	*Account Receivable – L. Christopher*	*176*	
	Sales		*160*
	GST Clearing		*16*
	Cost of Sales	*80*	
	Inventory		*80*

d

General Ledger

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 1	*Balance*	*38 000*	*Sept. 2*	*Cost of Sales*	*900*
15	*Account Payable – Delmonte Suits*	*12 000*	*29*	*Cost of Sales*	*80*
21	*Cost of Sales*	*300*			

Account Receivable – L. Christopher (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 1	*Balance*	*1 100*	*Sept. 9*	*Bank*	*1 000*
2	*Sales / GST Clearing*	*1 716*	*21*	*Sales returns / GST Clearing*	*572*
29	*Sales / GST Clearing*	*176*			

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 1	*Balance*	*300*	*Sept. 2*	*Account Receivable – L. Christopher*	*156*
21	*Account Receivable – L. Christopher*	*52*	*29*	*Account Receivable – L. Christopher*	*16*

e

Explanation	*Asset decrease overall by $220:*
	Account Receivable – L. Christopher decreases $572 because he no longer
	owes the business for the suit he has returned (and the GST on that suit);
	Inventory increases $300 as the suit is put back into the shop; and
	GST Clearing increases $52 as this amount is owed to the business by the
	ATO.

e

Strategy 1	*Improve service at time of sale to ensure that the customer is fitted correctly*
	and has the right size clothing.
Strategy 2	*Improve signage and labelling to ensure customers are able to identify the*
	size of the products they are buying.

Exercise 6.6 Discount Expense

a

Explanation	*Because the terms of the sale were 6/10, n/30, meaning a discount is*
	available if cash is received within 10 days of the sale.
	The sale occurred on 24 April 2025 and the cash is received less than 10 days
	later on 3 May 2025.

b

Calculation

	Amount owing	*$1 100*
-	*Amount paid*	*1 034*
	Discount revenue	*66*

Discount expense $ *66*

c

General Journal

Date	Details	Debit $	Credit $
May 3	*Bank*	*1 034*	
	Discount expense	*66*	
	Account Receivable – L. Christopher		*1 100*
	Cash received from M. Salah after discount of $66		
	(EFT receipt 36524)		

d

Explanation	*It is a decrease in assets (Account Receivable – M. Salah)*
	that results in a decrease in Owner's equity
	and is incurred when the cash is received and the discount is given
	on 3 May 2025.

e

General Ledger

Bank (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 3	*Account Receivable – M. Salah*	*1 034*	*May 1*	*Balance*	*600*

Account Receivable – M. Salah (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Balance*	*1 100*	*May 3*	*Bank / Discount expense*	*1 100*

Discount expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 3	*Account Receivable – M. Salah*	*66*			

f

Explanation *Under the **Accrual basis** assumption, revenue is earned at the point of sale so the discount does **not** reduce the revenue earned on 24 April 2025. It increases expense incurred on 3 May 2025 when the discount is granted.*

g

Discussion *Discounts offered to Accounts Receivable are expenses which reduce profit and also reduce the amount of cash received. However, they increase the speed at which cash is received from Accounts Receivable and this cash can then be used to meet other cash requirements such as paying Wages and other expenses or loans. This faster receipt of cash from Accounts Receivable can also reduce the possibility of bad debts. As a result, they can be beneficial for liquidity (but the owner must monitor the benefit in terms of receiving cash faster versus the costs of lower profit and smaller amounts of cash being received.*

Exercise 6.7 Accounts Receivable: Cash and Credit Transactions

a

Explanation	*The discount period of 25 days is almost as long as the 30 days given to pay*
	so almost all Accounts Receivable will receive the discount.
	Sports Bonanza will thus incur Discount expense and receive less cash but
	without receiving the cash much faster from Accounts Receivable.

b **General Journal**

Date	Details	Debit $	Credit $
Dec. 5	*Bank*	*1 188*	
	Discount expense	*132*	
	Account Receivable – Emerald CC		*1 320*
9	*Account Receivable – St. Carl's PS*	*1 430*	
	Sales		*1 300*
	GST Clearing		*130*
	Cost of Sales	*800*	
	Inventory		*800*
13	*Sales returns*	*200*	
	GST Clearing	*20*	
	Account Receivable – St. Carl's PS		*220*
	Inventory	*120*	
	Cost of Sales		*120*
17	*Account Payable – Apex Sports*	*12 000*	
	Bank		*10 230*
	Discount revenue		*770*
21	*Bank*	*1 089*	
	Discount expense	*121*	
	Account Receivable – St. Carl's PS		*1 210*

c

Explanation	*To receive the discount the customer must pay the full amount within the credit*
	terms but this was only a partial payment of the $825 owing from the sale on
	16 December 2025.

d/e

General Ledger

Bank (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 3	*GST Clearing*	*700*	*Dec. 1*	*Balance*	*500*
5	*Account Receivable – Emerald CC*	*1 188*		*Drawings*	*500*
21	*Account Receivable – St. Carl's PS*	*1 089*	*12*	*Wages*	*780*
24	*Sales / GST Clearing*	*770*	*15*	*Inventory / GST Clearing*	*4 510*
31	*Account Receivable – Emerald CC*	*500*	*17*	*Account Payable – Apex Sports*	*10 230*
	Balance	*13 483*	*27*	*Electricity / GST Clearing*	*1 210*
		17 730			*17 730*
			Jan. 1	*Balance*	*13 483*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 1	*Balance*	*14 000*	*Dec. 9*	*Cost of Sales*	*800*
8	*Account Payable – Apex Sports*	*10 000*	*16*	*Cost of Sales*	*450*
13	*Cost of Sales*	*120*	*24*	*Cost of Sales*	*400*
15	*Bank*	*4 100*	*31*	*Balance*	*26 570*
		28 220			*28 220*
Jan. 1	*Balance*	*26 570*			

Account Receivable – Emerald CC (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 1	*Balance*	*1 320*	*Dec. 5*	*Bank / Discount expense*	*1 320*
16	*Sales / GST Clearing*	*825*	*31*	*Bank*	*500*

Account Receivable – St. Carl's PS (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 9	*Sales / GST Clearing*	*1 430*	*Dec. 13*	*Sales returns / GST Clearing*	*220*
			21	*Bank / Discount expense*	*1 210*

Shop fittings (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 1	*Balance*	*25 000*			

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 1	*Balance*	*700*	*Dec. 3*	*Bank*	*700*
8	*Account Payable – Apex Sports*	*1 000*	*9*	*Account Receivable – St. Carl's PS*	*130*
9	*Account Receivable – St. Carl's PS*	*20*	*16*	*Account Receivable – Emerald CC*	*75*
15	*Bank*	*410*	*24*	*Bank*	*70*
27	*Bank*	*110*	*31*	*Balance*	*1 265*
		2 240			*2 240*
Jan. 1	*Balance*	*1 265*			

Account Payable – Apex Sports (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 17	*Bank / Discount revenue*	*11 000*	*Dec. 8*	*Inventory / GST Clearing*	*11 000*

Loan – FinCo (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Dec. 1	*Balance*	*12 000*

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Dec. 1	*Balance*	*28 520*

Drawings (-Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 1	*Bank*	*500*			

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Dec. 9	*Account Receivable – St. Carl's PS*	*1 300*
			16	*Account Receivable – St. Carl's PS*	*750*
			24	*Bank*	*700*

Sales returns (-R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 13	*Account Receivable – St. Carl's PS*	*200*			

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 9	*Inventory*	*800*	*Dec. 13*	*Inventory*	*120*
16	*Inventory*	*450*			
24	*Inventory*	*400*			

Discount expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 5	*Account Receivable – Emerald CC*	*132*			
21	*Account Receivable – St. Carl's PS*	*121*			

Discount revenue (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Dec. 17	*Account Payable – Apex Sports*	*770*

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 12	*Bank*	*780*			

Electricity (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 27	*Bank*	*1 100*			

f

Explanation	*As a Current liability, Bank overdraft as it has a credit balance meaning*
	the business has a present obligation to transfer economic
	resources (cash) if the overdraft is called in
	in the next 12 months.

g

Explanation	*It decreases equities overall by $470*
	because although the profit on the sale increases Owner's equity by $300
	liabilities (Bank overdraft) decrease by $770.
	(GST Clearing is an asset)

h

Discussion	*The credit terms offered by Sports Bonanza require Accounts Receivable to*
	pay within 30 days (or 25 days if they wish to receive the discount).
	This is well within the 60 days offered by Apex Sports and should have a
	positive effect on liquidity as cash should be received from Accounts
	Receivable faster than it is paid to Accounts Payable.
	However, in order to take advantage of the discount offered by Accounts
	Payable Sports Bonanza would need to pay within 10 days, well before it
	collects cash from its Accounts Receivable, and this would have a negative
	effect on liquidity as cash is paid before it is received.
	(This would be exacerbated if cash purchases of inventory were greater than
	cash sales.)

Exercise 6.8 GST Clearing Account

a

Explanation	*Because it is not paid to suppliers on purchases,*
	but to the ATO to settle the GST debt (from a previous Period)
	and this payment is only infrequent.

b

	Increase / Decrease / No effect	Amount $
Assets	*Decrease (Bank)*	*1 620*
Liabilities	*Decrease (GST Clearing)*	*1 620*
Owner's Equity	*No effect*	

d/e

General Ledger

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Bank	*1 620*	**July 1**	**Balance**	**1 620**
	Bank	*380*	*31*	*Bank*	*640*
	Accounts Payable	*630*		*Accounts Receivable*	*920*
	Accounts Receivable	*120*		*Accounts Payable*	*95*
July 31	*Balance*	*525*			
		3 275			*3 275*
			Aug. 1	*Balance*	*525*

d

Explanation	*As a current liability of $550*
	as it is a present obligation to transfer an economic resource (cash)
	when the GST is paid to the ATO sometime in the next 12 months

e

Explanation	*Selling prices are usually higher than cost prices,*
	so the GST on sales (which creates a liability) is likely to be greater than the
	GST on purchases (which decreases that liability).

Exercise 6.9 Accounts Payable and Accounts Receivable

a **General Ledger**

Bank (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	**Balance**	**5 000**		*Inventory / GST Clearing*	**8 800**
	Sales / GST Clearing	*22 000*		*Expenses / GST Clearing*	*1 650*
	Accounts Receivable	*39 000*		*Accounts Payable*	*28 500*

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	**Balance**	**13 000**		*Cost of Sales*	*25 000*
	Bank	*8 000*		*Cost of Sales*	*12 500*
	Accounts Payable	*30 000*		*Accounts Payable*	*750*
	Cost of Sales	*750*			

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	**Balance**	**25 000**		*Bank / Discount expense*	*39 540*
	Sales / GST Clearing	*44 000*		*Sales returns / GST Clearing*	*1 320*

Accounts Payable (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Bank / Discount revenue	*28 870*	**Nov. 1**	**Balance**	**35 000**
	Inventory / GST Clearing	*825*		*Inventory / GST Clearing*	*33 000*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Bank		**Nov. 1**	**Balance**	**950**
	Bank	*8 00*		*Bank*	*2 000*
	Accounts Payable	*3 000*		*Accounts Receivable*	*4 000*
	Accounts Receivable	*120*		*Accounts Payable*	*75*
	Bank	*150*			

Cost of Sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Inventory	*25 000*		*Inventory*	*750*
	Inventory	*12 500*			

b

Explanation	*It is not possible to identify details relating to each individual Account*
	Receivable such as balance owing, or the date of individual transctions.
	This makes it harder to manage these Accounts Receivable and ensure that
	they are paying on time.

c

Explanation	*If there is only on Account Payable then the balance of the Accounts Payable*
	account is the balance owed to that supplier.
	(Or the business may use additional subsidiary records for Accounts Payable.)

d

Explanation	*By comparing it against the Statement of Account issued by the supplier to*
	ensure that the General Ledger account was complete and free from material
	error.

Exercise 6.10 Accounts Receivable Turnover

a

Measures	*average number of days taken to receive cash from Accounts Receivable*
	(indicating the effectiveness of the management of Accounts Receivable).

b

Calculation

$$ARTO = \frac{\text{Average Accounts Receivable}}{\text{Net Credit sales (plus GST)}} \times 365$$

$$\frac{(\$6\,000 + \$8\,000) / 2}{\$56\,100 - \$1\,870} \times 365$$

$$= \frac{\$7\,000}{\$54\,230} \times 365$$

= *48* days (47.1 rounded up to the nearest day)*

Accounts Receivable Turnover	*47* **days**

c

Reason 1	*Slower than credit terms offered to customers (40 days)*
	meaning credit checks / collection procedures are not working
Reason 2	*Slower than previous year (2024 – 38 days)*
	meaning cash is received more slowly and cannot be used to meet payments

d

Explanation	*If cash is not collected quickly enough from Accounts Receivable*
	Accounts Payable Turnover may slow
	and payments to Accounts Payable may not be made within the credit terms
	offered by suppliers.

e

Strategy 1	*Credit checks before offering credit / Prompt invoicing /*
	Offering settlement discounts /
Strategy 2	*Reminder calls /Threats of legal action /*
	Refusal to grant credit to slow payers

f

Explanation	*If cash is not collected quickly enough from Accounts Receivable*
	Accounts Payable Turnover may slow
	and payments to Accounts Payable may not be made within the credit terms
	offered by suppliers.

Exercise 6.11 Accounts Receivable Turnover

a

Explanation	*Credit terms offered by suppliers are longer than those offered to customers.*
	This should mean the business has time to make sales and collect cash from
	Accounts Receivable before cash must be paid to Accounts Payable,
	and short-term debts can be met as they fall due.

b

Reason 1	*Lower sales*
	Less effective credit checks
Reason 2	*Less effective collection procedures*
	eg. slow invoicing / failure to send reminders

c

Explanation	*Slower collection of cash from Accounts Receivable may have meant less*
	cash available to meet cash payments including payments to Accounts
	Payable therefore Accounts Payable Turnover slowed.

d

Reason 1	*Faster than 2024 (fell from almost 40 days to under 30 days)*
	meaning cash is received faster and can be used for cash requirements.
Reason 2	*Faster than credit terms offered to customers (30 days)*
	meaning an improvement in collection procedures

e

Explanation	*It is more than 10 days slower than the 60 day credit terms offered by*
	suppliers, who may decide to refuse to offer credit.
	This could mean Galvin Plastics needs to pay cash for inventory before it has
	time to generate the cash from sales, putting a strain on liquidity.
Action 1	*Contact the Accounts Payable to negotiate repayment options*
Action 2	*Source extra cash (generate higher sales, make a capital contribution)*

f

Discussion	*Not offering credit to late payers should have the effect of increasing the speed of Accounts Receivable Turnover as only customers who pay on time will be offered credit. This would increase liquidity as cash is received faster from Accounts Receivable and can then be used to make cash payments.*
	It could also lead to these customers paying cash for their inventory meaning cash is received much faster.
	However, it could also cost the business in lost sales as some customers decide to buy from other suppliers who do offer credit. This would negatively affect both profit (as the sales are lost) and liquidity as there would be less cash inflows from Accounts Receivable.
	This is particularly the case for a customer like McGregor Holdings which has been a loyal customer for more than 10 years, and usually only pays 3 or 4 days late.
	The business must consider the benefits in terms of faster cash against the costs generated by a potential loss of sales.

Exercise 7.1 Non-cash transactions with the owner

a

Explanation	*As a non-current asset: a present economic resource (for displaying inventory*
	for sale) controlled by the entity (Max's Smart Phones) as a result of past
	events (the contribution by the owner) which are expected to be used by the
	business for a number of years and are not held for resale.

b

General Journal

Date	Details	Debit $	Credit $
April 1	Shelving	12 500	
	Capital		12 500
	Contribution by owner of shelving valued at fair value		
	(Memo 63)		

c

Explanation	*The shelving is valued at its fair value – the value that would have been*
	received if it had been sold at the time it was acquired by the business.
	This valuation is a Faithful representation of the real-world economic value
	of the shelving when it is acquired by the business.

d

Explanation	*Assets will increase by $12 500 due to the shelving providing economic benefit*
	to the business. Liabilities are not affected.
	Owner's equity will increase by $12 500 as the owner's contribution increases
	his claim on the assets of the business.

e

Explanation	*Going concern assumes the business will continue operating into the future*
	meaning its assets should continue to be valued by their future economic
	benefit. The asset is not expected to be liquidated now so should not be
	valued at its resale value.

Exercise 7.2 Non-cash transactions with the owner

a

Explanation	*To verify an internal transaction*
	that does not involve cash and is not a sale, purchase or return of inventory.

b

Explanation	*By identifying the current market valuation of other comparable assets*
	(of a similar age and/or condition) which then provides a Faithful
	representation of the asset's real-world economic value which is neutral and
	free from bias.

c

Explanation	*Under the Entity assumption, the business is an entity separate from the*
	owner and its records must be kept on that basis.
	The amount paid by the owner relates to a different entity and cannot be used
	by the business.

d

General Journal

Date	Details	Debit $	Credit $
Aug. 12	*Laptop*	*1 100*	
	Capital		*1 100*

e

Explanation	*Assets would be overstated by $900 due to the laptop being over-valued.*
	Liabilities would not be affected.
	Owner's equity would be overstated by $900.

f

Discussion	*Wendy is correct in arguing that using the $2 000 valuation will make assets*
	higher and this may make the business look better. It is also Verifiable by
	reference to the source document from when she made the purchase.
	However, this valuation is not Relevant from the point of view of the business
	as the business has not had access to economic benefits worth $2 000. As a
	result, this valuation is detrimental to decision making.
	Further, it is not a Faithful representation of the value of the asset – a
	real world valuation of its economic benefit – at the time it is acquired by the
	business.
	The only valuation possible for the business is the fair value of $1 100.

Exercise 7.3 Non-cash drawings by the owner

a

Document	*Memo*
Transaction	*Drawings of inventory by the owner*
	(for personal reasons ie. a birthday present for his son).

b

Explanation	*Under the Entity assumption, the business is assumed to be an entity separate*
	from the owner, so this transaction must be recorded as a reduction in the
	owner's claim on the assets of the firm.

c **General Journal**

Date	Details	Debit $	Credit $
Sept. 16	*Drawings*	*1 000*	
	Inventory		*1 000*
	Drawings of inventory by the owner (Memo 73)		

d

Explanation	*Assets decrease by $1 000 due to the inventory that has been withdrawn*
	and is no longer available to provide an economic benefit to the business.
	Liabilities are not affected.
	Owner's equity decreases by $1 000 as the owner's claim on the assets of the
	business decreases.

e Tool Town

Balance Sheet (extract) as at 30 September 2025

	$	**$**
Current Assets		
Capital	*23 000*	
less Drawings	*1 000*	*22 000*

f

Explanation	*Because he needs to consider the effect of these reports on society,*
	meaning he is obliged to present reports which represent faithfully and
	accurately the true value of the firm's assets, as the reports may be relied
	upon (by Tom and others) to for decision making.

Exercise 7.4 Non-cash transactions with the owner

a **General Journal**

Date	Details	Debit $	Credit $
July 2	*Drawings*	*100*	
	Office furniture		*100*
	Withdrawal of furniture by owner (Memo 24)		
July 10	*Shelving*	*2 500*	
	Capital		*2 500*
	Contribution of shelving by owner at fair value		
	(Memo 25)		

b

Explanation *The shelving is valued at its fair value (excluding any GST) – the real-world economic value of the shelving / the potential economic benefits to the business at the time it was acquired by the business.*

c **General Ledger**

Capital (Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			July 1	*Balance*	*30 000*
			10	*Shelving*	*2 500*

Drawings (-Oe)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 2	*Office furniture*	*100*			

d

Explanation	*No – drawings by the owner are expressly excluded from definition of an*
	expense (as they are not the result of a business activity, but those of the
	owner).

e

Explanation	*Assets would be understated by $2 500 due to the shelving not being included*
	in the non-current assets.
	Liabilities would not be affected.
	Owner's equity would be understated by $2 500 due to the owner's
	contribution not being recorded.

Exercise 7.5 Commencing entry

a

Calculation

Owner's Equity = Assets less Liabilities

= $213 340 less $50 700

Owner's Equity | **$** *162 640*

b

General Journal

Date	Details	Debit $	Credit $
March 1	*Bank*	*3 400*	
	Account Receivable – Sunset Pools	*8 250*	
	Account Receivable – Mickel Homes	*8 690*	
	Inventory	*124 000*	
	Delivery vehicles	*69 000*	
	Account Payable – Pool Gear		*48 000*
	GST Clearing		*2 700*
	Capital		*162 640*
	Commencement of double-entry records		
	(Memo 54)		

c

Explanation *It is recorded as a credit entry but to GST Clearing as it is a liability: present obligation of the entity (to pay the GST owing) as a result of past events.*

d

Explanation *It is not a transaction (like a deposit) but rather the recognition of a balance as the cash is already in the firm's account.*

e

Explanation	*To provide a mechanism for analysing the debit and credit entries and*
	for identifying the source document (the memo) which verifies the transaction.

Exercise 7.6 Commencing entry

a

General Journal

Date	Details	Debit $	Credit $
May 1	*Account Receivable – RACV*	*4 000*	
	Account Receivable – Borders	*6 800*	
	GST Clearing	*1 450*	
	Inventory	*117 000*	
	Premises	*500 000*	
	Bank		*2 500*
	Account Payable – NZ Pile		*26 000*
	Account Payable – Woolmark		*31 000*
	Mortgage		*475 000*
	Capital		*94 750*
2	*Office equipment*	*3 100*	
	Bank		*3 100*

b

Explanation	*The office equipment should be valued at $3 100*
	as this is its fair value and thus its real-world value / economic value to the
	business at the time of its acquisition (which is useful for decision making).
Qualitative characteristic	*Faithful representation (Relevance)*

c

Explanation	*The difference in the two valuations should not be reported as an expense*
	as it is not useful for decision making about the firm's activities as this value
	was not consumed by the business but by the owner.
Qualitative characteristic	*Relevance*

d Claire's Carpets

Balance Sheet as at 2 May 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Account Receivable – RACV	*4 000*		*Bank*	*5 600*	
Account Receivable – Borders	*6 800*		*Account Payable – NZ Pile*	*26 000*	
GST Clearing	*1 450*		*Account Payable – Woolmark*	*31 000*	
Inventory	*117 000*	*129 250*	*Mortgage*	*6 000*	*68 600*
Non-Current Assets			***Non-Current Liabilities***		
Office equipment	*3 100*		*Mortgage*		*469 000*
Premises	*500 000*	*503 100*			
			Owner's equity		
			Capital		*94 750*
Total Assets		***632 350***	***Total Equities***		***632 350***

Exercise 7.7 Contribution of assets and liabilities

a **General Journal**

Date	Details	Debit $	Credit $
July 1	*Bank*	*20 000*	
	Van	*13 000*	
	Inventory	*18 000*	
	Loan		*27 000*
	Capital		*24 000*

b

Explanation	*The cash will be verified by a receipt (of some kind)*
	The inventory will be verified by a memo (as it is the result of various
	purchases).

c

Explanation	*The purchase of the van was not made by Danielle's Antiques*
	(but rather by the owner – a separate entity)
	so the business cannot claim a reduction in GST owed to the ATO.

d

Explanation	*It is assumed that business will continue operating into the future*
	meaning the inventory should be valued at its original purchase price
	(as this is Verifiable). The asset is not expected to be liquidated now so
	should not be valued at its resale value.
Accounting assumption	*Going concern*

e

Discussion	*Fair value is an estimate and thus can be said to be less Verifiable than the original purchase price.*
	However, the purchase price was not paid by the business but by another Accounting entity, so this valuation is not Relevant to decision making by the business.
	It is also not a Faithful representation of the real-world value of the van at the time it is acquired by the business, meaning the fair value should be used.

Exercise 7.8 Correcting entries

a **General Journal**

Date	Details	Debit $	Credit $
June 30	*Telephone charges*	*50*	
	Insurance		*50*
	Correcting entry: Telephone charges incorrectly debited		
	to Insurance (Memo 16)		
30	*Drawings*	*90*	
	Interest expense		*90*
	Correcting entry: Drawings incorrectly recorded as		
	Interest expense (Memo 17)		
30	*Bank*	*198*	
	Wages		*198*
	Correcting entry: Wrong amount recorded for Wages		
	(Memo 18)		
30	*Bank*	*1 600*	
	Account Receivable – B. Billiten		*800*
	Account Payable – B. Bolton		*800*
	Correcting entry: receipt from Acc. Receivable recorded		
	as payment to Acc. Payable (Memo 19)		

b

Explanation	*In both cases an expense was paid*
	meaning both would result in an decrease to GST owing
	(and therefore a debit to the GST Clearing account).

c

Explanation	*Interest expense decreases $90 (as the expense was not actually incurred)*
	meaning Net profit increases $90.

d

Method	*By comparing the amount recorded to the figure in the Bank Statement.*
	By the employee notifying the business of the over-payment.

e

Explanation	*Accounts Receivable would be overstated and Bank would be understated*
	by $800 because the receipt would not be shown, but Bank would be
	understated by a further $800 due to incorrectly showing a payment
	meaning overall assets would be understated by $800. No effect on liabilities.

f

Discussion	*Whether the transaction is recorded as Drawings or Interest expense (which*
	decreases Net profit), Owner's equity will still decrease which might suggest
	it does not matter if the error is declared.
	However, Net profit as reported in the Income Statement will differ
	and this difference may affect decision making based on that report.
	As an result, Barry has a financial and ethical responsibility to report this
	error.

Exercise 7.9 Correcting entries

a

General Journal

Date	Details	Debit $	Credit $
June 30	*Advertising*	*500*	
	Drawings		*500*
	Equipment	*120*	
	GST Clearing	*12*	
	Cleaning expenses		*132*
	Loan – HBM	*100*	
	Interest expense		*100*
	Bank	*45*	
	Electricity	*505*	
	Account Payable – N. Smythe		*550*
	Sales returns	*450*	
	GST Clearing	*90*	
	Accounts Receivable – B. Quick		*495*
	Inventory	*750*	
	Cost of sales		*300*
	Accounts Payable – B. Quack		*495*

b

Explanation	*No effect – both will result in a decrease to Owner's equity*
	(either directly or as a result of decreasing Net profit).

c

Explanation *Cleaning expenses will decrease by $120 leading to an increase in Net profit.*

d

Explanation *Liabilities will be understated by $100 as as a result of incorrectly recording a decrease in the Loan – HBM. Owner's equity will be overstated by $100 as a result of not recording the Interest expense. No effect on assets.*

e

Explanation *The Statement of Account can be checked against the source documents which verified each transaction as well as against the Account Payable account in the General Ledger to ensure that the reports provide a Faithful representation of the real-world value of the amount owed.*

f

	Increase / Decrease / No effect	**Amount $**
Assets	*Increase (Increase Inventory $750, decrease Acc Receivable $495)*	*255*
Liabilities	*Increase (Decrease GST Clearing $90, increase Acc Payable $495)*	*405*
Owner's Equity	*Decrease (Sales returns 450 less decrease COS 300 = decrease Profit)*	*150*

Exercise 7.10 Order form

a

Explanation	*There is no transaction to record*
	as no exchange of goods or services has taken place
	(and there are not dollar values).

b

Explanation	*It is issued by Bev's Photo Shop as a request*
	but Komak is responsible for setting the selling price.

c

Explanation	*Because there is no exchange there is no 'past event',*
	meaning Bev's Photo Shop does not have control of the inventory (as it has
	not yet been delivered) and it cannot therefore provide an economic benefit.

d

Document	*Invoice*

Exercise 7.11 Delivery docket

a

Document	*Delivery docket*
Purpose	*To verify the quantity of inventory delivered on a particular day*
	(which can be checked against the invoice to verify the amount owing).

b

Information 1	*The total amount of the transaction*
	The GST on the purchase
Information 2	*The invoice number*

c

Document 1	*Purchase order (Order form)*
Document 2	*Order confirmation / Shipping confirmation*

d

Number of Café sets	*9*
Justification	*10 were ordered but only 9 were 'Shipped' (with 1 remaining on back order)*

e

Explanation	*It can be checked against a physical count of the number of items delivered*
	to ensure it is accurate and faithfully represents the quantity of inventory
	delivered.
	(It can also be checked against eth invoice to verify the amount charged.)

Exercise 8.1 Inventory cards: Constant cost prices

a

Explanation	*No effect:*
	GST does not affect the economic benefit represented by the inventory, so
	inventory cards only record the cost price of inventory that is bought and sold.
	(GST on sales increases / GST on purchases decreases GST liability.)

b

Inventory Item: Super Soft mattress **Location:** C4, 114
Inventory Code: SSM **Supplier:** Foamworks

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Oct. 1	**Balance**							**60**	**130**	**7 800**
2	*Invoice 4512*	*25*	*130*	*3 250*				*85*	*130*	*11 050*
5	*Invoice 52*				*20*	*130*	*2 600*	*65*	*130*	*8 450*
7	*Cr. Note 101*				*2*	*130*	*260*	*63*	*130*	*8 190*
11	*EFT rec. 2001*	*30*	*130*	*3 900*				*93*	*130*	*12 090*
14	*Rec. 64*				*40*	*130*	*5 200*	*53*	*130*	*6 890*
17	*Ch. 580*	*20*	*130*	*2 600*				*73*	*130*	*9 490*
20	*Cr. Note 16*	*1*	*130*	*130*				*74*	*130*	*9 620*
26	*Memo 43*				*2*	*130*	*260*	*72*	*130*	*9 360*
29	*Rec. 71*				*30*	*130*	*3 900*	*42*	*130*	*5 460*
31	*Memo 46*				*1*	*130*	*130*	*41*	*130*	*5 330*

c

Explanation	*It is a sale so it is*
	recorded in the OUT column
	and decreases the Balance of inventory on hand.

d

Calculation	*OUT column:*			
	Oct. 6	*2 600*		
	18	*5 200*		
	31	*3 900*	*11 700*	
			Cost of Sales	**$** *11 700*

e

Reason	*It is only for one line of inventory.*
	(The Balance Sheet will show the total value of all lines of inventory on hand.)

f **See next page**

g

Explanation	*Thw owner is assumed to be an entity separate from the business*
	so this is treated as Drawings by the owner (decreasing Owner's equity).

f

General Journal

Date	Details	Debit $	Credit $
Oct. 2	*Inventory*	*3 250*	
	GST Clearing	*325*	*3 575*
	Account Payable – Supersoft		
	Credit purchase of 25 SuperSoft mattresses		
	(Invoice 4512)		
Oct. 5	*Accounts Receivable – Bed World*	*4 400*	
	Sales		*4 000*
	GST Clearing		*400*
	Cost of sales		
	Inventory		
	Credit sale of 20 mattresses to Bed World (Invoice 52)		
Oct. 7	*Account Payable – Supersoft*		
	Inventory		
	GST Clearing		
	Purchase return of 2 mattresses to SuperSoft due to		
	damage (Credit note 101)		
Oct. 20	*Sales returns*		
	GST Clearing		
	Accounts Receivable – Bed World		
	Inventory		
	Cost of sales		
	Sales return of one mattress from Bed World due to		
	change of mind (Credit note 16)		
Oct. 26	*Advertising*	*260*	
	Inventory		*260*
	Two mattresses donated to local school for sick bay		
	(Memo 43)		

Exercise 8.2 Inventory cards: Identified cost

a

Inventory Item:	Glass Front Cabinets						**Location:**	Row 6, Bay 4		
Inventory Code:	900GF						**Supplier:**	Pine Products		
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
May 1	**Balance**							**40**	**240**	**9 600**
2	*Invoice C745*	*20*	*250*	*5 000*				*40*	*240*	*9 600*
								20	*250*	*5 000*
4	*Invoice 76*				*23*	*240*	*5 520*	*17*	*240*	*4 080*
					12	*250*	*3 000*	*8*	*250*	*2 000*
7	*Memo 34*				*2*	*250*	*500*	*17*	*240*	*4 080*
								6	*250*	*1 500*
12	*Cr. Note 21*	*5*	*240*	*1 200*				*22*	*240*	*5 280*
								6	*250*	*1 500*
15	*Cr. Note A56*				*5*	*240*	*1 200*	*17*	*240*	*4 080*
								6	*250*	*1 500*
19	*Inv. C786*	*30*	*260*	*7 800*				*17*	*240*	*4 080*
								6	*250*	*1 500*
								30	*260*	*7 800*
24	*Rec. 98*				*8*	*240*	*1 920*	*9*	*240*	*2 160*
					12	*260*	*3 120*	*6*	*250*	*1 500*
								18	*260*	*4 680*
28	*Memo 37*				*4*	*240*	*960*	*5*	*240*	*1 200*
								6	*250*	*1 500*
								18	*260*	*4 680*
31	*Invoice 89*				*15*	*260*	*3 900*	*5*	*240*	*1 200*
								6	*250*	*1 500*
								3	*260*	*780*

b

General Journal

Date	Details	Debit $	Credit $
May 4	*Accounts Receivable – GQ Design*	*19 250*	
	Sales		*17 500*
	GST Clearing		*1 750*
	Cost of sales	*8 520*	
	Inventory		*8 520*
7	*Drawings*	*500*	
	Inventory		*500*
12	*Sales returns*	*2 500*	
	GST Clearing	*250*	
	Accounts Receivable – GQ Design		*2 750*
	Inventory	*1 200*	
	Cost of sales		*1 200*
15	*Account Payable – Fisher Furniture*	*1 320*	
	Inventory		*1 200*
	GST Clearing		*120*
24	*Bank*	*11 000*	
	Sales		*10 000*
	GST Clearing		*1 000*
	Cost of sales	*5 040*	
	Inventory		*5 040*

c

Explanation *Each item is marked ('identified') in some way and its cost price noted.*

d

Explanation	*The items are identical in the eyes of the customer*
	and they are charged the same selling price.

e

Calculation

	Sales (OUT column):	*May 4*	*5 520*	
			3 000	
		May 24	*1 920*	
			3 120	
		May 31	*3 900*	*17 460*
less	*Sales returns (IN column):*	*May 12*		*(1 200)*
			Cost of Sales	**$** *16 260*

f

Calculation

Sales	*May 4*	*35 cabinets x $500 each*	*17 500*	
	May 24	*20 cabinets x $500 each*	*10 000*	
	May 31	*15 cabinets x $500 each*	*7 500*	*35 000*
less Sales returns	*May 12*	*5 cabinets x $500 each*		*(2 500)*
				32 500
less Cost of Sales				*(16 260)*
			Gross profit	**$** *16 240*

g

Explanation	*Accounts receivable increases $8 250 for the sale plus GST*
	but Inventory decreases $3 900 meaning assets increase overall $4 350.
	Liabilities increase $750 due to the increase in GST owing to the ATO from
	the sale.
	Owner's equity increases $3 600 as a result of Sales $7 500 less Cost of sales
	$3 600 leading to profit of $3 600.

Exercise 8.3 Inventory loss: Identified cost

a

Qualitative Characteristic	*Faithful representation*
Explanation	*To check the accuracy of the inventory cards, in the process detecting any inventory losses / gains and ensuring that the records provide a valuation of inventory that reflects its real-world economic benefit and is accurate and complete.*

b

Reason 1	*Damage / breakages*
Reason 2	*Undersupply by supplier / Oversupply to customer*

c

Inventory Item: Executive 1000 **Location:** Aisle 3
Inventory Code: EX1000 **Supplier:** Partner Desks

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Mar. 31	**Balance**							**4**	**290**	**1 160**
								15	**300**	**4 500**
								10	**320**	**3 200**
31	*Memo 95*				*1*	*290*	*290*	*3*	*290*	*870*
					1	*320*	*320*	*15*	*300*	*4 500*
								9	*320*	*2 880*

d **General Journal**

Date	Details	Debit $	Credit $
March 31	*Inventory loss*	*610*	
	Inventory		*610*
	Inventory loss of 2 EX1000 desks revealed by physical count (Memo 95)		

e

Explanation	*It represents a decrease in assets (Inventory) and*
	a decrease in Owner's equity
	that is not the result of Drawings.

f

Explanation	*Assets (Inventory) decreases by $610 due to the inventory lost and*
	Liabilities are not affected.
	Owner's equity decreases by $610 as Inventory loss expense decreases
	profit.

Exercise 8.4 Inventory gain: Identified cost

a

Reason 1	*Oversupply by supplier*
Reason 2	*Undersupply to customer*

b

Inventory Item: Voss Headphones **Location:** Back wall
Inventory Code: MVH **Supplier:** Voss Inc.

Date	Details	IN Qty	IN Cost	IN Total	OUT Qty	OUT Cost	OUT Total	BALANCE Qty	BALANCE Cost	BALANCE Total
De. 31	**Balance**							**14**	**80**	**1 120**
								7	**90**	**630**
31	*Memo 115*	*1*	*80*	*80*				*15*	*80*	*1 200*
		2	*90*	*180*				*9*	*90*	*810*

c **General Journal**

Date	Details	Debit $	Credit $
March 31	*Inventory*	*260*	
	Inventory gain		*260*
	Inventory loss of 3 MVH headphones revealed by		
	physical count (Memo 115)		

d

Explanation	*It represents an increase in assets (Inventory) and*
	an increase in Owner's equity
	that is not the result of a capital contribution.

e

Explanation	*Assets (Inventory) increases by $260 due to the inventory gained and*
	Liabilities are not affected.
	Owner's equity increases by $260 as Inventory gain revenue increases
	profit.

f

Explanation	*It would reduce administrative expenses such as the cost of labels and the*
	wages paid to staff for individually labelling each item of inventory and
	recording these cost prices.

Exercise 8.5 Inventory cards: First in, First out

a

Inventory Item: Picture frames **Location:** Back wall
Inventory Code: 45B **Supplier:** Priority Plastics

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Jan. 1	**Balance**							**50**	**40**	**2 000**
								60	**50**	**3 000**
3	*Invoice 44*				*35*	*40*	*1 400*	*15*	*40*	*600*
								60	*50*	*3 000*
5	*Cheque 243*	*30*	*50*	*1 500*				*15*	*40*	*600*
								90	*50*	*4 500*
10	*EFT rec. 68*				*15*	*40*	*600*			
					25	*50*	*1 250*	*65*	*50*	*3 250*
12	*Invoice ZF390*	*40*	*60*	*2 400*				*65*	*50*	*3 250*
								40	*60*	*2 400*
16	*Memo 14*				*12*	*50*	*600*	*53*	*50*	*2 650*
								40	*60*	*2 400*
19	*Cr. Note 55*	*3*	*40*	*120*				*3*	*40*	*120*
								53	*50*	*2 650*
								40	*60*	*2 400*
20	*Rec. 114*				*3*	*40*	*120*			
					53	*50*	*2 650*			
					4	*60*	*240*	*36*	*60*	*2 160*
22	*Cr. Note ZF82*				*6*	*60*	*360*	*30*	*60*	*1 800*
30	*Inv. ZF402*	*25*	*70*	*1 750*				*30*	*60*	*1 800*
								25	*70*	*1 750*

b

Explanation	*The first items purchased are assumed to be the first to be sold / leave the store.*
	Items are not physically marked to identify their cost price.

c

Explanation	*Under FIFO, all of the units from the $40 batch are assumed to be sold before any of the remaining units; all of the $50 units are assumed to be sold next.*
	Only when these units are all sold are the $60 units assumed to be sold.

d

Calculation

	Sales (OUT column):	*Jan. 3*	*1 400*	
		10	*600*	
			1 250	
		20	*120*	
			2 650	*6 020*
less	*Sales returns (IN column):*	*Jan. 19*		*(120)*
			Cost of Sales	**$** *5 900*

e

General Journal

Date	Details	Debit $	Credit $
Jan. 10	*Bank*	*4 400*	
	Sales		*4 000*
	GST Clearing		*400*
	Cost of sales	*1 850*	
	Inventory		*1 850*
16	*Advertising*	*600*	
	Inventory		*600*
19	*Sales returns*	*300*	
	GST Clearing	*30*	
	Accounts Receivable – Painters Inc.		*330*
	Inventory	*120*	
	Cost of sales		*120*
22	*Account Payable – Zimmer Frames*	*396*	
	Inventory		*360*
	GST Clearing		*36*
30	*Inventory*	*1 750*	
	GST Clearing	*175*	
	Account Payable – Zimmer Frames		*1 925*

f

Explanation *FIFO assumes that the older, cheaper items are sold first, leading to the lowest possible valuation of Cost of sales.*

Exercise 8.6 Inventory loss: FIFO

a

Inventory Item:	FP 2000 dishwasher						**Location:**	Row 16, Bay 3		
Inventory Code:	FP 2000						**Supplier:**	FP Dishwashers		
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
June 30	**Balance**							**6**	**600**	**3 600**
								12	**620**	**7 440**
30	*Memo 37*				*1*	*600*	*600*	*5*	*600*	*3 000*
								12	*620*	*7 440*

b

Explanation *The first items purchased (the oldest ones in the Balance column) are assumed to be 'lost' first.*

c **General Journal**

Date	Details	Debit $	Credit $
June 30	*Inventory loss*	*600*	
	Inventory		*600*
	Inventory loss of 1 FP 2000 dishwasher revealed by		
	physical count (Memo 37)		

d

Explanation *Assets (Inventory) would be overstated by $600 as the records would show one more dishwasher than actually on hand. Liabilities would not be affected. Owner's equity would be overstated by $600 as Inventory loss would be understated and profit overstated.*

e

Explanation	*The supplier has charged Esseb Electrical formore units than actually delivered (and this has not been detected).*
Action	*Check the quantity delivered against the delivery docket*

Exercise 8.7 Inventory gain: FIFO

a

Explanation *To provide a specific valuation of each item of inventory which can then be used to calculate an accurate selling price (to ensure an adequate mark-up).*

b

Inventory Item: Mohair wool, blue **Location:** Aisle 7
Inventory Code: MBL **Supplier:** Aust. Wool Mills

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
April 1	**Balance**							**23**	**10**	**230**
7	Cheque 1002	30	11	330				23	10	230
								30	11	330
19	Receipt 56				8	10	80	15	10	150
								30	11	330
30	*Memo 43*	*2*	*11*	*22*				*15*	*10*	*150*
								32	*11*	*352*

c

Explanation *The gain was valued using the most recent purchase price as this is the most up-to-date price and reflects the current real-world economic value of the inventory.*

Qualitative Characteristic *Faithful representation*

d

General Journal

Date	Details	Debit $	Credit $
April 30	*Inventory*	*20*	
	Inventory gain		*20*
	Inventory gain of 2 balls of MBL wool revealed by		
	physical count (Memo 43)		

e

Explanation	*Under Comparability, accounting methods should be consistent*
	to ensure that reports can be compared between periods
	to identify changes in performance.

Exercise 8.8 Inventory cards: FIFO

a

Inventory Item:	Glass Front Cabinets					**Location:**	Row 6, Bay 4			
Inventory Code:	900GF					**Supplier:**	Pine Products			
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
May 1	**Balance**							**40**	**240**	**9 600**
2	*Invoice C745*	*20*	*250*	*5 000*				*40*	*240*	*9 600*
								20	*250*	*5 000*
4	*Invoice 76*				*35*	*240*	*8 400*	*5*	*240*	*1 200*
								20	*250*	*5 000*
7	*Memo 34*				*2*	*240*	*480*	*3*	*240*	*720*
								20	*250*	*5 000*
12	*Cr. Note 21*	*5*	*240*	*1 200*				*8*	*240*	*1 920*
								20	*250*	*5 000*
15	*Cr. Note A56*				*5*	*240*	*1 200*	*3*	*240*	*720*
								20	*250*	*5 000*
19	*Inv. C786*	*30*	*260*	*7 800*				*3*	*240*	*720*
								20	*250*	*5 000*
								30	*260*	*7 800*
24	*Rec. 98*				*3*	*240*	*720*			
					17	*250*	*4 250*	*3*	*250*	*750*
								30	*260*	*7 800*
28	*Memo 37*				*3*	*250*	*750*			
					1	*260*	*260*	*29*	*260*	*7 540*
31	*Invoice 89*				*15*	*260*	*3 900*	*14*	*260*	*3 640*

b

Number of cabinets on hand	*14*
Explanation	*Both methods of inventory valuation count the same number of items*
	(but they assign a different valuation to those units).

c

Calculation

	Sales (OUT column):	*May 4*	*8 400*		
		May 24	*720*		
			4 250		
		May 31	*3 900*	*17 270*	
less	*Sales returns (IN column):*	*May 12*		*(1 200)*	
				Cost of Sales	**$** *16 070*

d

Calculation

8.8 'c' (FIFO)	*16 070*	
8.2 'd' (Identified cost)	*16 260*	
	Difference	**$** *190*

e

Explanation *FIFO assumes that the latest, more expensive untis of inventory remain on hand, meaning the highest possible valuation of Inventory.*

f

Discussion *Identified Cost might be administratively cheaper as the business does not have to pay for labelling and recording costs.*

However, given the relatively slow turnover, and the fact that the cost of each cabinet could be identified relatively easily, they may choose to use FIFO to ensure they calculate an accurate selling price which provides for an adequate mark-up.

Exercise 8.9 Reporting for inventory

a

Classification	*Expense*
Justification	*It is listed on the debit side of the Trial Balance.*

b WARREN'S WOKS

Income Statement for September 2025

	$	$
Revenue		
Sales	*81 200*	
less Sales returns	*1 200*	*80 000*
less Cost of Goods Sold		
Cost of sales	*40 000*	
Customs duty	*2 200*	*42 200*
Gross Profit		***37 800***
less Inventory loss		*500*
Adjusted Gross Profit		***37 300***
less Other Expenses		
Advertising	*6 000*	
Interest expense	*600*	
Wages	*16 300*	*22 900*
Net Profit		***14 400***

c

Justification	*Treated as part of Cost of Goods Sold*
	as it is incurred to bring inventory into a location and condition ready for sale.

d

Explanation	*It is necessary to provide information about the average mark-up, so that*
	the owner can take corrective action (where necessary) to improve profit.
	(This could mean increasing the selling price to generate greater profit per
	sale, or decreasing the selling price to be more price competitive.)

e WARREN'S WOKS

Balance Sheet as at 30 September 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank	*4 300*		*Accounts Payable – Best Suppliers*	*9 200*	
Account Receivable – KP Kitchens	*13 100*		*GST Clearing*	*3 400*	
Inventory	*19 000*	*37 500*	*Mortgage – BH Bank*	*12 000*	*24 600*
Non-Current Assets			***Non-Current Liabilities***		
Shelving	*17 000*		*Mortgage – BH Bank*		*78 000*
Premises	*120 000*	*137 000*			
			Owner's Equity		
			Capital – Warren	*59 400*	
			+ Net Profit	*15 500*	
				74 900	
			less Drawings	*3 000*	*71 900*
Total Assets		***174 500***	***Total Equities***		***174 500***

Exercise 8.10 Reporting for inventory

a POTS ‘N’ PANS

Income Statement for June 2025

	$	$
Revenue		
Sales	*96 800*	
less Sales returns	*6 800*	*90 000*
less Cost of Goods Sold		
Cost of sales	*60 000*	
Cartage in	*1 900*	*61 900*
Gross Profit		***28 100***
add Inventory gain		*700*
Adjusted Gross Profit		***28 800***
less Other Expenses		
Delivery to customers	*2 500*	
Rent expense	*14 000*	
Wages	*12 000*	*28 500*
Net Profit	***$***	***300***

b

Explanation	*High Sales returns*
	indicates customers returning inventory
	perhaps due to poor quality.

c

Explanation	*Insufficient as it is*
	barely high enough to cover Other expenses (and provide for Net Profit).

d Pots 'n' Pans

Balance Sheet as at 30 June 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Account Receivable – CS Cooking	*2 500*		*Bank*	*1 500*	
Account Receivable – Hotel Tyabb	*2 100*		*Account Payable – Pansteel Co.*	*6 300*	
Inventory Control	*20 000*	*24 600*	*GST Clearing*	*500*	*8 300*
Non-Current Assets			***Non-Current Liabilities***		
Shop Fittings		*40 000*	*Loan – Quickfin*		*20 000*
			Owner's Equity		
			Capital – Pamela	*41 000*	
			+ Net Profit	*300*	
				41 300	
			less Drawings	*5 000*	*36 300*
Total Assets	***$***	***64 600***	***Total Equities***	***$***	***64 600***

e

Discussion	*It is higher than the Net Profit figure (meaning Owner's Equity will decrease).*
	However,
	it is only $500 for the month:
	$6 000 per year is not enough to live on if this is the owner's income.

Exercise 8.11 Interpreting inventory cards

a

Valuation method	*FIFO (However, could be Identified cost!)*
Justification	*Nov. 22*
	All $40 units assumed to be sold before any $40 units

b

Transaction	*Credit sale (of 40 tins of oil, each with a cost price of $30)*

c

Relationship	*The items returned by customer as a sales return on 3 November 2025*
	are the same items
	returned to the supplier as a purchase return on 4 November.

d

Reason 1	*Advertising*
Reason 2	*Drawings*

e/f

General Journal

Date	Details	Debit $	Credit $
Nov. 22	*Bank*	*1 710*	
	Sales		*1 710*
	GST Clearing		
	Cost of sales	*1 140*	
	Inventory		*1 140*
	Cash sale of 30 tins of VO-01 olive oil		
	(Receipt 19)		
30	*Inventory loss*	*120*	
	Inventory		*120*
	Inventory loss of 3 tins of VO-01 olive oil revealed by		
	physical count (Memo 64)		

g

Calculation				
	Sales (OUT column):	*Nov. 9*	*1 200*	
		22	*180*	
			960	*2 340*
less	*Sales returns (IN column):*	*Nov. 3*		*(60)*
			Cost of Sales	**$** *2 280*

h

Reason 1	*It is only for one line of inventory*
Reason 2	*It doesn't include other Cost of Goods Sold, such as buying expenses, freight in.*

i

Calculation			
	Sales	*3 420*	
	less Cost of sales	*2 280*	
	Gross profit	*1 140*	
less	*Inventory loss*	*120*	
		Adjusted Gross Profit	**$** *1 020*

Exercise 8.12 Source documents and inventory cards

a

Qualitative characteristic	*Timeliness*
Explanation	*To detect any inventory loss / gain*
	early enough so that corrective action may be taken.

b

Inventory Item: Bedside lamps **Location:** Row 5, Bay A
Inventory Code: BL100 **Supplier:** Bright Lights

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Feb. 1	**Balance**							**4**	**20**	**80**
								7	**25**	**175**
2	*Inv. 519*	*20*	*20*	*400*				*4*	*20*	*80*
								7	*25*	*175*
								20	*20*	*400*
12	*Inv. 70*				*4*	*20*	*80*			
					6	*25*	*150*	*1*	*25*	*25*
								20	*20*	*400*
28	*Memo 73*				*1*	*25*	*25*			
					2	*20*	*40*	*18*	*20*	*360*

c

Explanation	*Not recorded as no transaction has occurred.*
	– it is simply an order form
	(There is no exchange of goods, and no price is specified.)

d

General Journal

Date	Details	Debit $	Credit $
Feb. 2	*Inventory*	*400*	
	GST Clearing	*40*	
	Account Payable – Bright Lights		*440*
	Credit purchase of 20 BL 100 lights from Bright Lights		
	(Invoice 519)		
12	*Account Receivable – The Hilton Country Inn*	*660*	
	Sales		*600*
	GST Clearing		*60*
	Cost of sales	*230*	
	Inventory		*230*
	Credit sale of 20 BL 100 lights to The Hilton Country		
	Inn (Invoice 70)		
28	*Inventory loss*	*65*	
	Inventory		*65*
	Inventory loss of BL 100 lights revealed by physical		
	count (Memo 73)		

e

Explanation	*It increases Inventory and Current Assets by $1 000 as the firm has*
	purchased more inventory.
	It increases liabilities overall by $1 000: although Accounts Payable increases
	by $1 100 as the business owes this,
	GST Clearing decreases by $100 as the amount owed to the ATO decreases.
	Owner's equity is not affected.

f

	Overstated / Understated / No effect	Amount $
Assets	*Overstated (Inventory)*	*65*
Liabilities	*No effect*	
Owner's Equity	*Overstated (Understated Inventory Loss overstates Net Profit)*	*65*

Exercise 8.13 Inventory and the General Ledger

a

Explanation	*Inventory card only shows balance of this line (Plain welcome mats)*
	Inventory account shows all lines of inventory

b

Number of mats	*105*

c

Explanation	*This is the most recent purchase price*
	and thus the price which reflects the real-world economic value of the inventory
	at the time the gain is detected.
Qualitative Characteristic	*Faithful representation*

d **General Journal**

Date	Details	Debit $	Credit $
April 2	*Sales returns*	*120*	
	GST Clearing	*12*	
	Account Receivable – Bullings		*132*
	Inventory	*60*	
	Cost of sales		*60*
	Sales return of 2 plain welcome mats by Bullings		
	(Credit note 36))		
9	*Drawings*	*90*	
	Inventory		*90*
	Drawings of 3 plain welcome mats		
	(Memo 71)		
25	*Inventory*	*2 700*	
	GST Clearing	*270*	
	Account Payable – Coir Industries		*2 970*
	Credit purchase of 60 PWM welcome mats from		
	Coir Industries (Invoice B0003)		
30	*Inventory*	*135*	
	Inventory gain		*135*
	Inventory gain of 3 PWM welcome mats revealed by		
	physical count (Memo 72)		

e

General Ledger

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Apr. 1	*Balance*	*42 950*	*Apr. 9*	*Drawings*	*90*
2	*Cost of sales*	*60*	*17*	*Cost of sales*	*430*
25	*Account Payable – Coir Industries*	*2 700*			
30	*Inventory gain*	*135*			

Account Receivable – Bullings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Apr. 1	*Balance*	*2 000*	*Apr. 2*	*Sales returns / GST Clearing*	*132*
17	*Sales / GST Clearing*	*946*			

f

Explanation	*No effect:*
	lower drawings would be offset by a higher Inventory loss and lower profit.
	(The missing inventoy would be reported as Inventory loss.)

Exercise 9.1 Cost of inventory

a

Explanation	*It does not affect the value of/economic benefit represented by the inventory;*
	it reduces the GST liability owed to the ATO.
	(The benefit is received when the GST settlement is made, not when the
	inventory is sold.)

b

Calculation

	Supplier's price	*$80*	*per barbecue*
+	*Cartage in*	*10*	*per barbecue*
		$90	

Cost price of one barbecue | **$** *90*

c

Explanation	*It is included as a product cost,*
	as it is a cost incurred to get the inventory ready for sale,
	and can be allocated to each individual barbecue on a logical basis
	(as it is charged per barbecue).

d

Inventory Item: Barbecues **Location:** Showroom, South west corner
Inventory Code: El Fresco 90 **Supplier:** Mark Webber Industries

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Mar. 1	**Balance**							**25**	**85**	**2 125**
4	*Ch. 102*	*40*	*90*	*3 600*				*25*	*85*	*2 125*
								40	*90*	*3 600*

e **General Journal**

Date	Details	Debit $	Credit $
Mar. 4	*Inventory*	*3 900*	
	GST Clearing	*390*	
	Bank		*4 290*
	Cash purchase of 40 El Fresco barbecues		
	(Cheque 102)		

Exercise 9.2 Cost of inventory

a

Explanation	*Selling price cannot be verified by a source document as the sale has not yet*
	occurred.
	Therefore the selling price does not provide a real world valuation as it is not
	complete, free from error or neutral.

b

Calculation

	Supplier's price	*$1 500*	*per couch*
+	*Anti-stain treatment*	*130*	*per couch*
		$1 630	

Cost price of one couch $ *1 630*

c

Explanation	*Not included*
	as it is incurred after the goods are ready for sale
	so it will be reported as an Other Expense.

d

Inventory Item: Couches **Location:**

Inventory Code: **Supplier:** Wilson Products

Date	Details	IN Qty	IN Cost	IN Total	OUT Qty	OUT Cost	OUT Total	BALANCE Qty	BALANCE Cost	BALANCE Total
Jan. 1	**Balance**							**8**	**1 590**	**12 720**
3	*Inv. 65*	*10*	*1 630*	*16 300*				*8*	*1 590*	*12 720*
								10	*1 630*	*16 300*

e **General Journal**

Date	Details	Debit $	Credit $
Jan. 3	*Inventory*	*16 300*	
	GST Clearing	*1 630*	
	Bank		*17 930*
	Credit purchase of 10 couches		
	(Invoice 65)		

Exercise 9.3 Product versus period costing

a

Explanation	*Under Relevance, the cost price is capable of making a difference to decision*
	making like setting selling prices / valuing inventory in the Balance Sheet.
or	*Under Faithful representation the cost price represents the real world value of*
	the inventory in a manner which is complete, free from bias and neutral.

b

Explanation	*As they are incurred to get the inventory ready for sale,*
	and can be allocated to each individual washer/dryer on a logical basis
	because they are charged 'per unit'.

c

Calculation

	Invoice price	*$900*	*per washer/dryer*
+	*Freight in*	*90*	*per washer/dryer*
+	*Modification costs*	*25*	*per washer/dryer*
		$1 015	

Cost price of one washer/dryer | **$** *1 015*

d

Inventory Item: Washer / dryer **Location:**
Inventory Code: **Supplier:** Young Bros.

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Nov. 6	*Inv. 23*	*40*	*1 015*	*40 600*				*40*	*1 015*	*40 600*

e

General Journal

Date	Details	Debit $	Credit $
Nov. 16	*Inventory*	*40 600*	
	GST Clearing	*4 060*	
	Account Payable – Young Bros.		*17 930*
	Credit purchase of 40 washer/dryers from Young Bros		
	(Invoice 23)		
16	*Insurance of inventory*	*400*	
	GST Clearing	*40*	
	Bank		*440*
	Paid insurance of inventory for the month (Cheque 142)		

f

Calculation

	Sales	*(25 x $2 500 each)*		*62 500*
less	***Cost of Goods Sold***			
	Cost of Sales	*(25 x $1 015 each)*	*25 375*	
	Insurance of inventory		*400*	*25 775*
	Gross Profit			***36 725***

Gross Profit | **$** *36 725*

g

Explanation *As although it is incurred to get the inventory ready for sale, it cannot be allocated to each individual washer/dryer on a logical basis because it is charged 'per month'.*

Exercise 9.4 Product versus period costs

a

Calculation

	Supplier's price	*$140*	*per bike*
+	*Sign writing*	*17*	*per bike*
		$157	

Cost price of one bike $ *157*

b

Explanation *It is included as a product cost,*

as it is a cost incurred to get the inventory ready for sale,

and ***can be allocated to each individual bike on a logical basis***

as it relates (only) to the 10 new bikes.

c

Inventory Item: Mountain Bikes **Location:** Storeroom, left hand side

Inventory Code: MB120 **Supplier:** Wonder Cycles

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Feb. 1	**Balance**							**4**	**155**	**620**
12	*Inv. A13 / Ch. 912*	*10*	*157*	*1 570*				*4*	*155*	*620*
								10	*157*	*1 570*

d **General Journal**

Date	Details	Debit $	Credit $
Feb. 12	*Inventory*	*1 570*	
	GST Clearing	*157*	
	Account Payable – Wonder Cycles		*1 727*
12	*Inventory*	*170*	
	GST Clearing	*17*	
	Bank		*187*

e

Calculation	
8 bikes @ $157 each	
Value of mountain bikes on hand	**$** *1 256*

f

Calculation	
8 bikes @ $140 each	
Value of mountain bikes on hand (Signwriting – period costing)	**$** *1 120*

g

	Higher / Lower / No effect	Amount $
Inventory on hand	*Lower (than product costing)*	*136*
Explanation	*Under period costing, inventory on hand does not include any signwriting,*	
	so the 8 bikes on hand are valued at $140 each rather than $157 each	
	ie. 8 bikes on hand x $17 per bike = $136.	
	(Period costing does not allocate $17 signwriting to each bike.)	

Exercise 9.5 Product versus period costs

a **General Journal**

Date	Details	Debit $	Credit $
Apr.1	*Inventory*	*9 300*	
	Freight in	*300*	
	GST Clearing	*960*	
	Account Payable – Wired Electrics		*10 560*
	Credit purchase of 12 TVs and 5 stereos from Wired		
	Electrics (Invoice 201)		

b

Explanation	*It must be treated as a period cost and recorded in a separate ledger account.*
	as it cannot be allocated to individual units of inventory on a logical basis
	because it is incurred for both televisions and stereos.

c **STATIC SOUND AND VISION**

Income Statement for April 2025

	$	$
Revenue		
Sales (3 TVs @ $1 200 plus 2 stereos @ $500)		*4 600*
less Cost of Goods Sold		
Cost of Sales (3 TVs @ $650 plus 2 stereos @ $300)	*2 550*	
Freight in	*300*	*2 850*
Gross Profit		***1 750***
less Inventory Loss (1 TV)		*650*
Adjusted Gross Profit		***1 100***

d

Explanation	*Period costing includes the entire cost as an expense*
	in the period in which inventory is purchased.
	If not all inventory is sold, this will lead to a higher Cost of Goods Sold than
	product costing, and thus a lower profit
	(because an expense is recognised as incurred even though the inventory has
	not been sold).

e

Discussion	*Given the TV is probably damaged*
	it is unethical to sell it without disclosing this fact
	as to do so would be misleading the customer.
	However,
	if the customer was informed that the TV had been dropped and was given
	information about the nature of the damage
	it may be appropriate to sell the TV at a reduced price
	(provided the TV is still safe for use).

Exercise 9.6 Product versus period costs

a

Discussion	*The cost of the brand badges could be treated as a product cost*
	as it is incurred to get inventory ready for sale, and
	can be allocated to individual units of inventory on a logical basis
	(one badge per pair of goggles).
	However, Relevance allows this cost to be treated as a period cost as
	80c per pair of goggles is too small to affect decision-making.

b

Calculation			
	Supplier's price	*$9 000 / 100 units*	*90*
+	*Packaging and delivery*	*$1 600 / 100 units*	*16*
		Cost price of one pair of goggles	**$** *106*

c

Explanation	*The insurance is a period cost as it*
	cannot be allocated to individual units of inventory on a logical basis
	because it is incurred per annum,
	and there are likely to be other lines of inventory covered by the insurance.

d

Calculation			
	Cost of sales	*(30 pairs x $106 each)*	*$3 180*
+	*Brand badges*		*80*
+	*Acc. m'ment fee*		*150*
		Cost of Goods Sold	**$** *3 410*

e

Calculation			
	Cost of sales	*(30 pairs x $90 each)*	*$2 700*
+	*Brand badges*		*80*
+	*Packaging / delivery*		*1 600*
+	*Acc. m'ment fee*		*150*
		Cost of Goods Sold (Packaging – period cost)	**$** *4 530*

f

Explanation *Assets (Inventory) would be $1 120 lower*
because it would not include $16 packaging per unit x 70 units
There would be no effect on liabilities.
Owner's equity would be $1 120 lower
because COGS would include the full $1 600 packaging cost
(compared to 30/100 x $1 600 = $480 under product costing) and thus
profit would be $1 120 lower.

Exercise 9.7 Lower of cost and NRV

a

Calculation

40 plates @ $20 each

Value of plates on hand $ *800*

b

Explanation *The Net Realisable Value of the plates has fallen below their Cost so their original purchase price no longer provides a Faithful representation of their value.*

The cost price is no longer complete and free from error (accurate).

c

Calculation

	Historical Cost	*$800*	*40 plates @ $20 each*
less	*Net Realisable Value*	*200*	*40 plates @ $5 each*
		600	*40 plates @ $15 each*

Total Inventory Write-down $ *600*

d

Inventory Item: Plates (2006 World Cup) **Location:** Storeroom, Shelf 8 (Top)
Inventory Code: WC30 **Supplier:** Royal Dullard Plates

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
May 1	**Balance**							**40**	**20**	**800**
31	*Memo 39*				*40*	*15*	*600*	40	*5*	*200*

e

General Journal

Date	Details	Debit $	Credit $
May 31	*Inventory write-down*	*600*	
	Inventory		*600*
	40 plates written down to Net Realisable Value: out of		
	date (Memo 39)		

f

Explanation	*Assets (Inventory) will decrease by $600*
	because each plate is now worth less ($5 instead of $20).
	Liabilities are not affected.
	Inventory Write-down expense will decrease Net Profit
	and therefore Owner's Equity by $600.

Exercise 9.8 Lower of cost and NRV

a

Net Realisable Value	***Estimated*** *selling price of inventory*
	less any costs incurred in its selling, marketing or distribution

b

Calculation

	Estimated selling price	*$500*	
less	*Sales commission (15%)*	*75*	
		$425	*x 8 cameras on hand*

Total Net Realisable Value | **$** *3 400*

c

Inventory Item: Security cameras **Location:** Aisle 4
Inventory Code: VM1000 **Supplier:** Viewmaster

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Sept. 1	**Balance**							**14**	**450**	**6 300**
21	*Rec. 24*				*6*	*450*	*2 700*	*8*	*450*	*3 600*
30	*Memo 19*				*8*	*25*	*200*	*8*	*425*	*3 400*

d **General Journal**

Date	Details	Debit $	Credit $
Sept. 30	*Inventory write-down*	*200*	
	Inventory		*200*
	8 cameras written down to Net Realisable Value:		
	obsolete (Memo 19)		

e SIR VAYLANCE

Income Statement for September 2025

	$	$
Revenue		
Sales (6 cameras @ $800)		*4 800*
less Cost of Goods Sold		
Cost of Sales (6 cameras @ $450 each)		*2 700*
Gross Profit		***2 100***
less Inventory Write-down		*200*
Adjusted Gross Profit		***1 900***

Exercise 9.9 Lower of cost and NRV

a

Calculation				
	Jeans	*200 @ $50*	*$10 000*	
	Shirts	*50 @ $35*	*1 750*	
	Hats	*400 @ $20*	*8 000*	
			Value of inventory (Inventory card)	**$** *19 750*

b

Calculation					
	Jeans	*200 @ $50*	*$10 000*		
	Shirts	*50 @ $32*	*1 600*	*(NRV = $40 – $8)*	
	Hats	*400 @ $20*	*8 000*		
				Value of inventory (Lower of cost and NRV)	**$** *19 600*

c

Reason 1	*Damaged/shop soiled*
Reason 2	*Out of date/no longer fashionable/lack of demand*
Reason 3	*Marketing ploy*

d

Explanation	*The Net Realisable Value of the shirts has fallen below their cost.*
	This must be disclosed so that the reports are not misleading to users.
	Reports must include all Relevant information
	to provide a Faithful representation of the firm's position.

e

Inventory Item: *Shirts*					**Location:**					
Inventory Code:					**Supplier:**					
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Dec. 31	**Balance**							*50*	*35*	*1 750*
31	*Memo 17*				*50*	*3*	*150*	*50*	*32*	*1 600*

f **General Journal**

Date	Details	Debit $	Credit $
May 31	*Inventory write-down*	*150*	
	Inventory		*150*

g

	Overstated / Understated / No effect	Amount $
Assets	*Overstated (Inventory)*	*150*
Liabilities	*No effect*	
Owner's Equity	*Overstated (Understated Inventory Write-down expense means overstated Net Profit)*	*150*

Exercise 9.10 Lower of cost and NRV

a

Explanation	*The business is assumed to be a Going concern which will continue operating*
	into the future
	so the jackets do not need to be valued at what they would realise today.

b

Explanation	*The Net Realisable Value of the cameras has fallen below their Cost*
	so their original purchase price no longer provides a Faithful representation
	of their value.
	The cost price is no longer complete and free from error (accurate).

c

Calculation

Historical cost:		***less***	***Net Realisable Value:***	
50 @ $70	*$3 500*		*Estimated selling price (70 @ $80)*	*5 600*
20 @ $72	*1 440*		*less Selling expenses*	*1 400*
	$4 940			*4 200*
			Inventory Write-down	**$** *740*

d

Inventory Item: Security cameras **Location:** Aisle 4

Inventory Code: VM1000 **Supplier:** Viewmaster

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Oct. 31	**Balance**							**50**	**70**	**3 500**
								20	**72**	**1 440**
31	*Memo 73*				*50*	*10*	*500*			
					20	*12*	*240*	*70*	*60*	*4 200*

e **General Journal**

Date	Details	Debit $	Credit $
Oct. 31	*Inventory write-down*	*740*	
	Inventory		*740*
	70 jackets written down to Net Realisable Value: end		
	of season (Memo 73)		

Exercise 9.11 Inventory Turnover

a

Measures	*average number of days taken to sell inventory*
	(indicating the effectiveness of the management of Inventory).

b

Calculation

$$ITO \quad \frac{(\$68\,000 + \$78\,000) / 2}{\$300\,000} \times 365$$

$$= \frac{\$73\,000}{\$300\,000} \times 365$$

= *89* days (88.8 rounded up to the nearest day)*

Inventory Turnover | *89* **days**

c

Reason 1	*Slower than credit terms offered by suppliers (60 days)*
	meaning inventory is not sold fast enough to pay Accounts Payable
Reason 2	*Slower than previous year (2024 – 72 days)*
	inventory is not selling as fast (perhaps it is not in demand).

d

Reason 1	*Increased chances of Inventory loss / Inventory write-down expenses*
	(due to on hand for longer and damaged or out of date)
Reason 2	*Lack of sales revenue*

e

Strategy 1	*Increase sales: lower selling prices / advertising / inventory mix /*
	complementary products et al
Strategy 2	*Decrease Inventory on hand*
	eg. order less, more frequently (JIT), reduce range

f

Discussion	*All purchases are made on credit and Accounts Payable allow 60 days to*
	pay
	90% of sales are on cash so as soon as inventory is sold cash is received.
	However,
	Inventory Turnover of 89 days exceeds the credit terms offered by suppliers
	meaning the business needs to pay cash before it has sold the inventory
	and received the cash.
	Without a large bank balance or other sources of cash this will make it
	difficult to pay Accounts Payable on time.

Exercise 9.12 Cash Cycle

a

Fastest Inventory Turnover	*Hair wax*
Reason	*Inexpensive / Consumed quickly (within days / weeks)*

b

Reason	*As customers grow beards sales of Beard trimmers increase*
	and this decreases sales of Electric razors.

c

Explanation	*Because the items are different and the demand for these items will differ*
	so they will sell at different speeds.

d

Explanation	*Reduce inventory of After shave on hand*
	by ordering less, or more frequently (JIT).

e

Information	*Previous year / Budget / Industry average*
	Non-financial information: changes in number of men growing beards

f

Discussion	*Lower selling prices may generate extra sales volume*
	(provided customers respond positively to the change in prices)
	and this might be beneficial for profit.
	Higher sales would also make Inventory Turnover faster.
	However, lower selling prices would mean less revenue per sale
	which could mean lower Sales revenue overall and therefore lower profit.
	Also, the lower mark-up might mean Gross profit is not enough to cover
	Other expenses and provide for profit.

Exercise 9.13 Product versus period costs

a

Calculation

Invoice price (excl. GST) $\dfrac{\textit{\$3 200}}{\textit{16 suits}}$

Cost price of one suit **$** *200*

b

Explanation *The tailoring is incurred to get the suits ready for sale*
and can be logically allocated to each suit.
It is appropriate to include this in the valuation of inventory so users of the
reports have all information Relevant to decision making.

c

Inventory Item: Wool Suits, SB, Grey **Location:** Row 7
Inventory Code: SBG **Supplier:** Woollen Mills Australia

Date	Details	IN Qty	IN Cost	IN Total	OUT Qty	OUT Cost	OUT Total	BALANCE Qty	BALANCE Cost	BALANCE Total
Aug. 31	**Balance**							**10**	**195**	**1 950**
3	*Inv. 85*	*16*	*200*	*3 200*				*10*	*195*	*1 950*
								16	*200*	*3 200*

d

Explanation *The discount is excluded from the valuation of inventory in the inventory card*
as it does not affect the cost of the inventory purchased on 3 August 2025.
(It decreases the amount paid to Accounts Payable on 9 August 2025.)

e

General Journal

Date	Details	Debit $	Credit $
Aug. 3	*Inventory*	*3 200*	
	GST Clearing	*320*	
	Account Payable – Woollen Mills Australia		*3 520*
	Credit purchase of 16 suits from Wired		
	Electrics (Invoice 201)		

f

Explanation	*All tailoring costs would be reported as an expense*
	when the suits were purchased, so
	Assets (Inventory) would be lower by $120
	as the 4 suits on hand would not include $30 tailoring per suit.
	Cost of Goods Sold would be $120 higher
	as it would include $480 of tailoring (rather than $^{12}/_{16}$ x $480 = $360)
	meaning Net Profit and Owner's Equity would be lower by $120.
	Liabilities are not affected.

g

Explanation	*The GST is levied only on the selling price of $3 200,*
	whereas the discount is levied on the entire amount owing ($3 520),
	including the GST.

Exercise 9.14 Recording and reporting for inventory

a

Calculation

	Supplier's price	*$1 400*	*per scooter*
+	*Freight in*	*400*	*($2 000 / 5 scooters)*
+	*Sports kit*	*100*	*per scooter*
		Cost price of one scooter	**$** *1 900*

b

Explanation *Included as a product cost*
as it is incurred to get the scooters ready for sale,
and can be allocated to each scooter on a logical basis
because it is charged per bike/scooter.

c

Explanation *The Net Realisable Value of the scooter has fallen below its Cost due to*
damage so its original purchase price no longer provides a Faithful
representation of its value.
The cost price is no longer complete and free from error (accurate).

d

Inventory Item:	Scooter, 125cc, Black					**Location:**	Showroom			
Inventory Code:	GT125					**Supplier:**	BX Bikes			
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
July 1	*Balance*							*16*	*1 800*	*28 800*
5	*Inv. V23*				*9*	*1 800*	*16 200*	*7*	*1 800*	*12 600*
12	*Inv.42/Ch.188*	*5*	*1 900*	*9 500*				*7*	*1 800*	*12 600*
								5	*1 900*	*9 500*
14	*Cr. note 17*	*1*	*1 800*	*1 800*				*8*	*1 800*	*14 400*
								5	*1 900*	*9 500*
16	*Cr. note 922*				*1*	*1 800*	*1 800*	*7*	*1 800*	*12 600*
								5	*1 900*	*9 500*
26	*Inv. V24*				*7*	*1 800*	*12 600*			
					2	*1 900*	*3 800*	*3*	*1 900*	*5 700*
31	*Memo 36*				*1*	*700*	*700*	*2*	*1 900*	*3 800*
								1	*1 200*	*1 200*

e

Discussion	*The damaged scooter is the same model / line as the others*
	and therefore could be recorded in the same Inventory card.
	However,
	the scratches / damage mean that it is identifiably different from the others:
	it is different in the eyes of the customer
	and will be sold for a different selling price.
	Because it is no longer the same line of inventory as the others
	it should therefore be removed from this Inventory card.

f

General Journal

Date	Details	Debit $	Credit $
July 14	*Sales returns*	*3 000*	
	GST Clearing	*300*	
	Account Receivable – J. Fangio		*3 300*
	Inventory	*1 800*	
	Cost of sales		*1 800*
	Sales return of 1 scooter by J. Fangio – faulty engine		
	(Credit note 17)		
16	*Account Payable – BX Bikes*	*1 980*	
	Inventory		*1 800*
	GST Clearing		*180*
	Purchase return of 1 scooter to BX Bikes – faulty engine		
	(Credit note 922)		
31	*Inventory write-down*	*700*	
	Inventory		*700*
	1 scooter written down to Net Realisable Value: damage		
	(Memo 36)		

g

General Ledger

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*28 800*	*July 5*	*Cost of sales*	*16 200*
12	*Account Payable – BX Bikes*	*9 000*	*16*	*Account Payable – BX Bikes*	*1 800*
	Bank	*500*	*26*	*Cost of sales*	*16 400*
14	*Cost of sales*	*1 800*	*31*	*Inventory write-down*	*700*
				Balance	*5 000*
		40 100			*40 100*
Aug. 1	*Balance*	*5 000*			

h ZIPPY SCOOTERS

Income Statement for July 2025

	$	$
Revenue		
Sales (18 scooters @ $3 000 each)	*54 000*	
less Sales returns	*3 000*	*51 000*
less Cost of Goods Sold		
Cost of Sales (16 200 – 1 800 + 12 600 + 3 800)		*30 800*
Gross Profit		***20 200***
less Inventory Write-Down		*700*
Adjusted Gross Profit		***19 500***

i

	Higher / Lower / /No effect	**Amount $**
Assets	*Lower (Inventory: 3 scooters @ $100 each)*	*300*
Liabilities	*No effect*	
Owner's Equity	*Lower (Higher COGS means lower Net Profit)*	*300*

j

Explanation	*Physically mark each individual item of inventory*
	Record the cost price of each individual item of inventory
	at the time of purchase and sale.

k

Explanation	*No need to allocate a cost price to the items sold because*
	all items had the same cost price.

l

Transaction	*July 26 – sale of 9 scooters*
Justification	*More of the scooters sold may have been those purchased later*
	(at $1 900 each).

m

Discussion	*Using Identified cost would not have affected Sales revenue as it is used*
	to determine the cost price only (and all scooters were sold for $3000 each).
	However,
	It might have meant a higher Cost of sales
	as more of the later ($1 900) items may have been sold on July 26.
	Also, higher costs of administering Identified cost – marking items and
	recording cost prices – may have also increased expenses.
	Together these might lead to higher expenses in the current Period
	and therefore lower Net profit for July 2025.

Exercise 10.1 Closing the ledger

a

Explanation	*To transfer revenues and expenses to the Profit and Loss Summary account*
	so that profit can be calculated for the current period.
	To reset the revenue and expense accounts to zero
	in preparation for next period.

b General Journal

Date	Details	Debit $	Credit $
Aug. 31	*Cash Sales*	*34 000*	
	Credit Sales	*28 000*	
	Interest Revenue	*1 500*	
	Sales Returns		*1 300*
	Profit and Loss Summary		*62 200*
	Closing revenue accounts to P&L Summary		
	(Memo 41)		
Aug. 31	*Profit and Loss Summary*	*61 250*	
	Cost of Sales		*31 350*
	Wages		*12 000*
	Rent Expense		*9 000*
	Advertising		*8 400*
	Inventory Loss		*500*
	Closing expense accounts to P&L Summary		
	(Memo 41)		
Aug.31	*Profit and Loss Summary*	*950*	
	Capital		*950*
	Transfer of Net Profit to Capital account (Memo 41)		

c General Ledger

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Profit and Loss Summary*	*62 000*	*Aug. 5*	*Bank*	*34 000*
			13	*Accounts receivable – CB Floors*	*28 000*
		$62 000			*$62 000*

Sales Returns

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 16	*Accounts receivable – CB Floors*	*1 300*	*Aug. 31*	*Profit and Loss Summary*	*1 300*
		$1 300			*$1 300*

Interest Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Profit and Loss Summary*	*1 500*	*Aug. 4*	*Bank*	*1 500*
		$1 500			*$1 500*

Cost of Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 5	*Inventory*	*17 000*	*Aug. 16*	*Inventory*	*650*
13	*Inventory*	*15 000*	*31*	*Profit and Loss Summary*	*31 350*
		$32 000			*$32 000*

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 24	*Bank*	*12 000*	*Aug. 31*	*Profit and Loss Summary*	*12 000*
		$12 000			*$12 000*

Rent Expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 12	*Bank*	*9 000*	*Aug. 31*	*Profit and Loss Summary*	*9 000*
		$9 000			*$9 000*

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 3	*Bank*	*8 000*	*Aug. 31*	*Profit and Loss Summary*	*8 400*
21	*Inventory*	*400*			
		$8 400			*$8 400*

Inventory Loss

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Inventory*	*500*	*Aug. 31*	*Profit and Loss Summary*	*500*
		$500			*$500*

Profit and Loss Summary

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Expenses*	*61 900*	*Aug. 31*	*Revenues*	*62 200*
	Capital	*300*			
		$62 200			*$62 200*

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 1	**Balance**	**40 000**
			31	*Profit and Loss Summary*	*300*

d

Explanation *Because as a current asset,*
it represents a future economic benefit,
which will be carried forward into the next Reporting Period.

e

Explanation *The Profit and Loss Summary account is transferred to the capital account, as it is only a temporary account to assist in calculating profit. Therefore, would be reported as part of Owners Equity in the balance sheet as part of the net profit figure, being added to capital for the period.*

Exercise 10.2 Closing the ledger

a General Journal

Date	Details	Debit $	Credit $
Dec. 31	*Cash Sales*	*30 000*	
	Credit Sales	*50 000*	
	Inventory gain	*1 200*	
	Sales Returns		*1 000*
	Profit and Loss Summary		*80 200*
	Closing revenue accounts to P&L Summary		
	(Memo 13)		
Dec. 31	*Profit and Loss Summary*	*81 400*	
	Freight Inwards		*1 600*
	Cost of Sales		*39 500*
	Wages		*30 500*
	Rent Expense		*8 500*
	Discount Expense		*1 300*
	Closing expense accounts to P&L Summary		
	(Memo 13)		
Dec. 31	*Capital*	*1 200*	
	Profit and Loss Summary		*1 200*
	Transfer of Net Loss to Capital account (Memo 13)		

b General Ledger

Cash Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Profit and Loss Summary*	*30 000*	*Dec.3*	*Bank*	*18 000*
			21	*Bank*	*12 000*
		$30 000			*$30 000*

Credit Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Profit and Loss Summary*	*50 000*	*Dec. 19*	*Accounts Receivable - Toyland*	*30 000*
			27	*Accounts Receivable – Big Q*	*23 000*
		$50 000			*$50 000*

Sales Returns

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec 26	*Accounts Receivable - Toyland*	*1 300*	*Dec. 31*	*Profit and Loss Summary*	*1 300*
		$1 300			*$1 300*

Inventory Gain

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Profit and Loss Summary*	*1 200*	*Dec. 31*	*Inventory*	*1 200*
		$1 600			*$1 600*

Freight Inwards

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 8	*Bank*	*1 600*	*Dec. 31*	*Profit and Loss Summary*	*1 600*
		$1 600			*$1 600*

Cost of Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 3	*Inventory*	*9 000*	Dec. 26	Inventory	500
19	*Inventory*	*13 500*	31	Profit and Loss Summary	39 500
21	*Inventory*	*6 000*			
27	*Inventory*	*11 500*			
		40 000			*40 000*

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 12	*Bank*	*16 000*	*Dec. 31*	*Profit and Loss Summary*	*30 500*
26	*Bank*	*14 500*			
		$30 500			*$30 500*

Rent Expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 2	*Bank*	*8 500*	*Dec. 31*	*Profit and Loss Summary*	*8 500*
		$8 500			*$8 500*

Discount Expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 30	*Account Receivable- Big Q*	*1 300*	*Dec. 31*	*Profit and Loss Summary*	*1 300*
		$1 300			*$1 300*

Profit and Loss Summary

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Expenses*	*81 400*	*Dec. 31*	*Revenues*	*80 200*
				Capital	*1 200*
		$81 400			*$81 400*

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Profit and Loss Summary*	*1 200*	**Jan. 1**	**Balance**	**36 000**

c

Calculation

	Sales revenue	*80 000*	
	Less Sales Returns	*1 000*	*79 000*
less	*Cost of Goods Sold*		
	Cost of Sales	*39 500*	
	Freight Inwards	*1 600*	*41 100*
	Gross Profit		*37 900*
	+ Inventory Gain		*1 200*
	Adjusted Gross Profit		*39 100*

Adjusted Gross Profit | **$** *39 100*

d

Explanation *It ensures that only those revenues earned and expenses incurred in the current Reporting Period are used to calculate profit, as it is only this information that is useful for decision-making.*

Exercise 10.3 Closing the ledger and transferring drawings

a/b General Journal

Date	Details	Debit $	Credit $
June 30	*Discount Revenue*	*500*	
	Sales	*82 500*	
	Sales Returns		*2 500*
	Profit and Loss Summary		*80 500*
	Profit and Loss Summary	*76 700*	
	Cost of Sales		*50 000*
	Discount Expense		*400*
	Inventory Loss		*300*
	Water and Supplies Expense		*15 000*
	Wages		*11 000*
	Profit and Loss Summary	*3 800*	
	Capital		*3 800*
June 30	*Capital*	*2 000*	
	Drawings		*2 000*

c General Ledger

Profit and Loss Summary

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Expenses*	*76 700*	*June 30*	*Revenues*	*80 500*
	Capital	*3 800*			
		$80 500			*$80 500*

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Bank*	*1 600*	*June 30*	*Capital*	*2 000*
	Inventory	*400*			
		$2 000			*$2 000*

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Drawings*	*2 000*	**June 1**	**Balance**	**30 900**
	Balance	*32 700*	*June 30*	*Profit and Loss Summary*	*3 800*
		$34 700			*$34 700*
			July 1	*Balance*	*32 700*

d

Explanation	*Because Drawings is not an expense*
	– it is expressly excluded by the definition
	as it is not an action of the business, but of the owner.

e **WOMBAT PLANTS**

Balance Sheet (extract) as at 30 June 2025

	$	$
Current Liabilities		
Accounts Payable	*4 000*	
GST Clearing	*1 000*	
Loan – ANZ	*2 000*	*7 000*
Non-Current Liabilities		
Loan – ANZ		*14 000*
Owner's Equity		
Capital – Withered	*30 900*	
add Net Profit	*3 800*	
	34 700	
less Drawings	*2 000*	*32 700*
Total Equities	**$**	***53 700***

Exercise 10.4 Income Statement

a General Ledger

Profit and Loss Summary

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Expenses*	*98 400*	*30/6/25*	*Revenues*	*122 400*
	Capital	*24 000*			
		$121 800			*$121 800*

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Drawings*	*5 600*	**1/7/24**	**Balance**	**28 000**
	Balance	*46 400*	*30/6/25*	*Profit and Loss Summary*	*24 000*
		$52 000			*$52 000*
			1/7/25	*Balance*	*46 400*

b FROSTY FRIDGES

Income Statement for the year ended 30 June 2025

	$	$
Revenue		
Sales	*122 600*	
Sales returns	*2 000*	*120 600*
less Cost of Goods Sold		
Cost of Sales	*60 000*	
Customs Duty	*2 500*	*62 500*
Gross Profit		***58 100***
less Inventory Loss	*500*	
less Inventory write-down	*600*	*1 100*
Adjusted Gross Profit		***57 000***
add Other Revenue		
Discount Revenue		*1 800*
		58 800
less Other Expenses		
Wages	*19 000*	
Advertising	*3 000*	
Discount Expense	*1 300*	
Rent Expense	*12 000*	*35 300*
Net Profit		***23 500***

c

Explanation	*Customs duty would be reported as part of Cost of Goods Sold*
	as it is incurred in order to get inventory into a position and location
	ready for sale.

d

Explanation	*The Income Statement supports Relevance, assisting decision-making about*
	the firm's trading operations by showing the individual revenues and expenses
	that have caused the Net Profit. The owner can examine Gross Profit to
	assess the adequacy of the mark-up, or assess control of particular expenses.

e

Reason	*Liabilities may have decreased.*

f

Discussion	*In terms of total Owner's equity it does not matter whether the owner's*
	Drawings is reported as part of Wages as both decrease the owner's claim on
	the assets of the business.
	However, Drawings are expressly excluded from the definition of an expense
	as they are not incurred to earn profit.
	To include Drawings as part of Wages would overstate expenses and
	understate profit, and this could distort decision making and lead to poor
	financial decisions (about trading opertions).
	It would be unethical to knowingly present reports which do not provide an
	accurate and faithful representation of the firm's performance
	so Drawings must be reported separately in the Balance Sheet
	and not included as part of Wages in the Income Statement.

Exercise 10.5 Income Statement

a General Journal

Date	Details	Debit $	Credit $
Oct 31	*Profit and Loss Summary*	*16 030*	
	Advertising		*450*
	Inventory Loss		*400*
	Freight In		*610*
	Discount Expense		*70*
	Freight Out		*800*
	Cost of Sales		*9 600*
	Rent Expense		*1 800*
	Wages		*2 300*

b General Ledger

Profit and Loss Summary

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct 31	*Expenses*	*16 030*	*Oct 31*	*Revenues*	*17 550*
	Capital	*1 520*			
		$17 550			*$17 550*

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct 31	*Drawings*	*1 500*	**Oct 1**	**Balance**	**14 200**
				Profit and Loss Summary	*1 520*
Oct 31	*Balance*	*14 220*			
		$15 720			*$15 720*
			Nov 1	*Balance*	*14 220*

c PRECIOUS PAINTINGS

Income Statement for October 2025

	$	$
Revenue		
Sales		*17 500*
less Cost of Goods Sold		
Cost of Sales	*9 600*	
Freight in	*610*	*10 210*
Gross Profit		***7 290***
less Inventory Loss		*400*
Adjusted Gross Profit		***6 890***
add Other Revenue		
Discount Revenue		*50*
		6 940
less Other Expenses		
Advertising	*450*	
Discount Expense	*70*	
Freight out	*800*	
Rent Expense	*2 400*	
Wages	*2 300*	*6 020*
Net Profit (Loss)	***$***	***920***

d

Explanation	*Freight out is recorded as an expense as it will decrease assets and decrease owners' equity, however will need to be listed as 'Other expense' and not 'Cost of Goods sold' as it is not a cost associated with getting the inventory in a position and condition ready for sale.*

e

Reason 1	*Less than the wages paid to the shop assistant*
Reason 2	*Not enough to cover Drawings*

f

Explanation	*Higher advertising could attract more customers leading to higher sales*
	and Net Profit.
or	*Higher Wages could improve customer service generating more sales.*
	(Other answers possible, but not changing prices.)

g PRECIOUS PAINTING

Balance Sheet as at 31 October 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Accounts Receivable	*2 800*		*Accounts Payable*	*6 350*	
Bank	*3 520*		*Loan – Commonwealth*	*5 000*	
Inventory	*14 000*	*20 320*	*GST Clearing*	*350*	*11 700*
Non-Current Assets			***Non-Current Liabilities***		
Delivery Vehicle	*20 000*	*20 000*	*Loan – Commonwealth*		*15 000*
			Owner's Equity		
			Capital – Love good	*14 200*	
			less Net Profit	*920*	
				15 210	
			less Drawings	*1 500*	*13 620*
Total Assets		***$40 320***	***Total Equities***		***$40 320***

Exercise 10.6 Income Statement

a

Explanation	*The Gain and Write down may relate to different lines of inventory.*
	It is possible that a business may have an Inventory gain in bed frames
	(more tiems) but an Inventory write down in mattresses (lower value).

b **General Journal**

Date	Details	Debit $	Credit $
May 31	*Discount Revenue*	*250*	
	Sales	*12 000*	
	Inventory Gain	*300*	
	Sales Returns		*1 200*
	Profit and Loss Summary		*11 350*

c REST EASY BEDS

Income Statement for May 2025

	$	$
Revenue		
Sales	*12 000*	
Less Sales Returns	*1 200*	***10 800***
less Cost of Goods Sold		
Cost of Sales	*8 380*	
Buying Expenses	*900*	*9 280*
Gross Profit		***1 520***
add Inventory Gain		*300*
Less Inventory Write Down		*400*
Adjusted Gross Profit		***1 420***
add Other Revenue		
Discount Revenue		*250*
		2 070
less Other Expenses		
Advertising	*230*	
Rent Expense	*1 800*	
Wages	*2 120*	*4 150*
Net Profit (Loss)		***(2 480)***

d

Explanation	*Discount revenue is recorded as 'Other revenue' (after Adjusted Gross Profit)*
	as it not earned from the sale of inventory,
	and therefore will not have a direct impact on Gross Profit
	and should not be included in the measure for mark up.

e

Explanation	*Sales returns (10%) – staff are providing incorrect advice to customers*
or	*Low Gross Profit (low mark-up) – sales staff not promoting sale of higher*
	mark-up items

f

Action 1	*Increase selling prices (to increase m/up)*
	Find a cheaper supplier / Negotiate cheaper rent (or move!)
Action 2	*Increase advertising (to generate sales)*
	Assess staff rostering

g REST EASY BEDS

Balance Sheet as at 31 May 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Accounts Receivable	*1 000*		*Bank (overdraft)*	*3 410*	
Inventory	*14 000*	*15 000*	*Accounts Payable*	*3 000*	
			GST Clearing	*350*	
Non-Current Assets			*Loan – Bank of Hope*	*5 000*	*11 760*
Office Furniture	*7 650*				
Shop Fittings	*21 920*	*29 570*	***Non-Current Liabilities***		
			Loan – Bank of Hope		*10 000*
			Owner's Equity		
			Capital – J. Snooze	*26 790*	
			less Net Loss	*(2 480)*	
				24 310	
			less Drawings	*1 500*	*22 810*
Total Assets		***44 570***	***Total Equities***		***44 570***

Exercise 10.7 Income Statement

a

Explanation	*Revenues and expenses must be transferred to the P&L Summary account*
	in order to determine profit for the current Period.
or	*Revenue and expense accounts must be reset to zero*
	in readiness for the next Period.

b **General Journal**

Date	Details	Debit $	Credit $
Dec 31	*Profit and Loss Summary*	*2 600*	
	Capital		*2 600*
	Drawings		*4 000*
	Capital	*4 000*	

c EDUTOYS
Income Statement for the year ended 31 December 2025

	$	$
Revenue		
Sales		*99 000*
less Cost of Goods Sold		
Cost of Sales	*62 000*	
Import Duties	*1 200*	*63 200*
Gross Profit		***35 800***
Inventory Write Down		*900*
Adjusted Gross Profit		*34 900*
add Other Revenue		
Discount Revenue		*700*
		35 600
less Other Expenses		
Advertising	*8 000*	
Discount Expense	*600*	
Electricity	*3 400*	
Wages	*21 000*	*33 000*
Net Profit (Loss)		***2 600***

d

Action 1	*Improve physical security measures (locking the storeroom / security cameras)* *Check purchase invoices against delivery dockets*
Action 2	*Change store layout to improve surveillance / protect inventory from damage* *More regular stocktakes / Change mark-up*

e

Explanation	*It may mean customers are less willing to buy from EduToys*
	leading to lower Sales revenue and thus lower Net Profit.
	Customers may be slow to pay,
	leading to increased bad debts and thus lower Net profit.

f

EDUTOYS
Balance Sheet as at 31 December 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank	*2 500*		*Accounts Payable*	*13 540*	
Accounts Receivable	*15 000*		*Loan – ANZ Bank*	*6 000*	
Inventory	*14 800*				*19 540*
GST Clearing	*270*	*32 570*			
			Non-Current Liabilities		
Non-Current Assets			*Loan – ANZ Bank*		*78 000*
Premises	*97 000*				
Shop Fittings	*36 000*	*133 000*	***Owner's Equity***		
			Capital – A. Teacher	*69 430*	
			add Net profit	*2 600*	
				72 030	
			less Drawings	*4 000*	*68 030*
Total Assets		***165 570***	***Total Equities***		***165 570***

g

Discussion	*The fact that EduToys has no Sales returns in its Income Statement may indicate that its products are good quality and customers are happy with what they have purchased.*
	However, it may not be ethical to make this claim if the Inventory write-down (which indicates that some inventory will sell below its cost) is due to poor quality inventory.
	(At the same time it is up to customers to check for themselves the accuracy of the claim due to caveat emptor – let the buyer beware.)

Exercise 10.8 Net Profit Margin

a

Explanation	*Indicates the expense control of the business*
	by calculating the percentage of net sales that is retained as net profit.

b

Calculation

Net Profit / Net Sales

90 000 / 892 000

*0.10089 * 100*

Net Profit Margin (2024) *10.08* **%**

Calculation

Net Profit / Net Sales

92 000 / 968 000

*0.0950 * 100*

Net Profit Margin (2025) *9.50* **%**

c

Explanation	*The firm's ability to control its overall expenses has worsened*
	as it is now only retaining 9.5 cents per sales dollar in net profit
	(compared to 2024 where it was retaining 10.05 cents per sales dollar).

d

Evaluation	*Increasing advertising might lead to increased Sales and Net Profit in dollar*
	terms as more customers are aware of the business, its products and prices.
	However, higher advertising will also increase expenses and this may lead to
	a decrease in the Net Profit Margin and worse profitability overall.
	The trend in Sales is increasing but Net Profit Margin is decreasing,
	suggesting revenue earning is not the problem but rather expense control,
	and higher advertising does not address this issue.

e

Action 1	*Reduce wages by changing staffing*
	Revert back to normal level of advertising
Action 2	*Improve inventory management to avoid loss of inventory during the period.*

f

Explanation	*Graphical representations improve Understandability*
	as the user (the owner) is able to comprehend the information without relying
	on accounting knowledge,
	leading to more informed and better decision making.

Exercise 10.9 Gross Profit Margin

a

Explanation	*The Income Statement suggests that there are no early payments made to*
	Accounts Payable, as there is no record of discount revenue.
	This would be the predominant reason for early payment of credit transactions.

b

Explanation	*measures the average mark up of inventory*
	by calculating the percentage of sales that is retained as Gross Profit.

c

Calculation

Gross Profit / Net Sales

218 400 / 476 800

0.4580 100*

Gross Profit Margin (2025)	*45.80* **%**

d

Reason 1	*Increased selling price*
Reason 2	*Decreased cost price of inventory: cheaper supplier / lower buying expenses*

e

Evaluation	*From an financial perspective, cutting back on wages will not change the Gross*
	Profit Margin as it will not change the average mark-up
	because it will not change the selling price or cost price of inventory.
	Further, it would unethical (and probably illegal) to simply reduce the hourly rate
	paid to employees.
	Reducing the hours employees work might be possible if they are casual
	but this runs the risk of reducing customers service and therefore sales and
	profit (but would still not improve the Gross Profit Margin).

f **Use spreadsheet**

g

Explanation	*A Pie Chart presents the information in a more Understandable fashion*
	showing a breakdown of how the Sales dollar is consumed.
	This can highlight problem areas so decisions can be made
	improving expense control within the business.

Exercise 10.10 Income Statement

a

Explanation	*The premises is owned*
	as 'Premises' is listed in Trial Balance
	(but 'Rent expense' is not).

b/c General Journal

Date	Details	Debit $	Credit $
Apr 30	*Wages expense*	*1 100*	
	Advertising expense		*1 000*
	GST Clearing		*100*
Apr 30	*Inventory Loss*	*390*	
	Inventory		*390*
Apr 30	*Sales*	*16 900*	
	Commission Revenue	*350*	
	Sales Returns		*400*
	Profit and Loss Summary		*16 850*
Apr 30	*Profit and Loss Summary*	*14 660*	
	Cost of Sales		*8 250*
	Freight In		*300*
	Advertising		*560*
	Discount Expense		*200*
	Electricity Expense		*620*
	Interest Expense		*50*
	Telephone Charges		*90*
	Wages		*4 200*
	Inventory Loss		*390*
Apr 30	*Profit and loss Summary*	*2 190*	
	Capital		*2 190*

d ZARA & LUKE
Income Statement for the year ended 30 April 2025

	$	$
Revenue		
Sales	*16 900*	
Less Sales Returns	*400*	*16 500*
less Cost of Goods Sold		
Cost of Sales	*8 250*	
Freight in	*300*	*8 550*
Gross Profit		***7 950***
Inventory Loss		*390*
Adjusted Gross Profit		*7 560*
add Other Revenue		
Commission Revenue		*350*
		7 910
less Other Expenses		
Advertising	*560*	
Discount Expense	*200*	
Electricity	*620*	
Interest Expense	*50*	
Telephone Charges	*90*	
Wages	*4 200*	*5 720*
Net Profit (Loss)		***2 190***

e

Discussion	*Displaying the pottery generates commission revenue for Zara and Luke*
	which increases Net Profit and this is an incentive to keep displaying the
	goods for sale.
	However, if the pottery business using dangerous chemicals it will be causing
	environmental damage meaning Zara and Luke should uphold its ethical
	responsibility to protect the environment and remove the items from display.
	(They might actually lose sales and profit if customers decide to not buy from
	them due to their lack of ethical and environmental responsibility.)

f

Explanation	*Increase selling price to increase mark up (Gross Profit).*
	Change the product mix towards higher mark-up items.

g

ZARA & LUKE
Balance Sheet as at 30 April 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Bank	*5 160*		*Accounts Payable*	*49 500*	
Inventory	*45 610*		*GST Clearing*	*4 800*	
Accounts Receivable	*2 300*	*53 070*	*Mortgage – Melven*	*6 000*	*60 300*
Non-Current Assets			**Non-Current Liabilities**		
Fixtures and Fittings	*35 000*		*Mortgage – Melven*	*484 000*	*484 000*
Premises	*520 000*	*555 000*			
			Owner's Equity		
			Capital	*63 080*	
			+ Net Profit	*2 190*	
				65 270	
			- Drawings	*(1 500)*	*63 770*
Total Assets		***608 070***	**Total Equities**		***608 070***

g

Explanation	*By reporting the item at its original purchase price as shown on the source*
	document, thereby ensuring the valuation is free from material error or bias.

Exercise 10.11 Income Statement

a

Explanation	*They do sell on credit terms*
	as Accounts Receivable and Discount Expense are both listed
	in the Trial Balance.

b

General Ledger

Profit and Loss Summary

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Expenses*	*414 750*	*June 30*	*Revenues*	*422 500*
	Capital	*7 750*			
		$422 500			*$422 500*

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Drawings*	*31 700*	**June 1**	**Balance**	**255 070**
	Balance	*231 120*	*30*	*Profit and Loss Summary*	*7 750*
		262 820			*262 820*
			July 1	*Balance*	*231 120*

c PRIME WINDOWS
Income Statement for the year ended 30 June 2025

	$	$
Revenue		
Sales	*420 000*	
Less Sales Returns	*1 500*	*418 500*
less Cost of Goods Sold		
Cost of Sales	*310 000*	
Buying Expenses	*4 300*	*314 300*
Gross Profit		***104 200***
Inventory Write-Down		*1 600*
Adjusted Gross Profit		*102 600*
add Other Revenue		
Discount Revenue		*4 000*
		106 600
less Other Expenses		
Discount Expense	*2 400*	
Insurance	*1 200*	
Interest Expense	*750*	
Rent Expense	*25 000*	
Vehicle Expenses	*16 400*	
Wages	*53 100*	*98 850*
Net Profit (Loss)		***7 750***

d

Explanation	*There is no advertising expense for the year;*
	the business only has two customers;
	and it is 500km from Melbourne.

e

Discussion	*Changing suppliers would allow them to reduce the cost price of their windows*
	increasing their mark-up as well as Gross and Net Profit.
	However,
	they would no longer be supporting local business;
	it could create job losses at the manufacturer JB Constructions;
	15/500 of town population is employed by main supplier;
	it wold have a negative effect on the local economy (where they live).

f

Action 1	*Increase selling price, while maintaining the same level of sales*
	Advertise to attract new customers
Action 2	*Decrease mark up of inventory to sell a larger quantity at a reduced level,*
	therefore increasing overall gross profit

g

PRIME WINDOWS

Balance Sheet as at 30 June 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Accounts Receivable:			*Bank Overdraft*	*680*	
- BuildWell	*48 000*		*Accounts Payable – JB Construction*	*140 000*	
- GQ Homes	*36 000*		*Loan – QV Finance*	*7 200*	*147 880*
GST Clearing	*3 800*				
Inventory	*146 000*	*233 800*	***Non-Current Liabilities***		
			Loan – QV Finance	*172 200*	*172 200*
Non-Current Assets					
Shelving	*145 000*		***Owner's Equity***		
Vehicles	*180 000*	*325 000*	*Capital*	*262 670*	
			+ Net Profit	*7 750*	
				270 420	
			- Drawings	*(31 700)*	*238 720*
Total Assets		***558 800***	***Total Equities***		***558 800***

h

Explanation	*Because drawings ($31700) were significantly higher than Net Profit ($7750),*
	therefore decreasing the owners' equity.
	This reduces the financial investment of the owner (increasing the level of risk)
	and the funds available to the firm.

Exercise 11.1 Statement of Receipts and Payments

a General Ledger

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*8 600*	*July*	*Accounts Payable*	*70 000*
	Sales / GST Clearing	*110 000*		*Electricity / GST Clearing*	*2 640*
	Accounts Receivable	*50 000*		*Interest*	*600*
	Capital	*15 000*		*Office expenses / GST Clearing*	*5 500*
				Wages	*30 000*
				Equipment / GST Clearing	*6 160*
				Drawings	*40 000*
				Loan	*6 000*
				Rent / GST Clearing	*19 800*
				Balance	*2 900*
		183 600			*183 600*
Aug. 1	*Balance*	*2 900*			

b CRAFTY CABINETS

Statement of Receipts and Payments for July 2025

	$	$
Cash Receipts		
Cash Sales	*100 000*	
Receipts from Accounts Receivable	*50 000*	
GST Received	*10 000*	
Capital	*15 000*	*175 000*
less Cash Payments		
Payments to Accounts Payable	*70 000*	
Electricity	*2 400*	
Interest Expense	*600*	
Office Expenses	*5 000*	
Wages	*30 000*	
Equipment	*5 600*	
Drawings	*40 000*	
GST Paid	*3 100*	
Loan Repayment	*6 000*	
Rent Expense	*18 000*	*180 700*
Cash Surplus (Deficit)		*(5 700)*
add Bank Balance at Start		*8 600*
Bank Balance at End		*2 900*

c

Reason	*The business has suffered a Cash Deficit (of $5 700), reducing its Bank balance*

d

Explanation	*By preparing a Cash Flow Statement,*
	which shows sources and uses of funds by classifying cash flows as
	Operating, Investing or Financing activities,
	providing greater Understandability.

Exercise 11.2 Cash Flow Statement

a

Calculation		
	Electricity	*150*
	Insurance	*180*
	Display cabinets	*600*
	GST paid	**$** *930*

b **BOOF HEAD**

Cash Flow Statement for the year ended 30 June 2025

	$	$
OPERATING ACTIVITIES		
Cash Sales	*50 000*	
Receipts from Accounts Receivable	*25 000*	
GST Received	*5 000*	*80 000*
Payments to Accounts Payable	*(24 000)*	
Wages	*(28 000)*	
GST Paid	*(930)*	
Electricity	*(1 500)*	
Insurance	*(1 800)*	*(56 230)*
Net Cash Flows from Operations		***23 770***
INVESTING ACTIVITIES		
Display Cabinets		*(6 000)*
Net Cash Flows from Investing Activities		***(6 000)***
FINANCING ACTIVITIES		
Capital Contribution		*10 000*
Drawings		*(12 000)*
Net Cash Flows from Financing Activities		***(2 000)***
Net Increase (Decrease) in Cash		***15 770***
Bank Balance at Start		***(13 500)***
Bank Balance at End		***2 270***

c

Explanation	*Classified as a Financing Outflow*
	as it is a cash flow related to a change in the firm's financial structure
	(i.e. it decreases Owner's Equity)

d

Reason	*To keep the bank balance out of overdraft* *To help fund the purchase of the display cabinets*

e

Explanation	*It aids decision-making by classifying sources and uses of funds, allowing the*
	owner to: identify whether Net Cash Flows from Operations is sufficient to
	cover other cash requirements / assess its performance in meeting its cash
	targets OR assists in planning for future cash activities by providing a basis
	for cash targets for the future (in the next Budgeted Cash Flow Statement).

Exercise 11.3 Cash Flow Statement

a

Calculation

Inventory	*500*
Electricity	*50*
Rent	*240*
Shelving	*160*
GST paid	**$** *950*

b FLIP FLOPS

Cash Flow Statement for the quarter ended 30 September 2025

	$	**$**
OPERATING ACTIVITIES		
Cash Sales	*10 000*	
Receipts from Accounts Receivable	*7 000*	
GST Received	*1 000*	*18 000*
Payments to Accounts Payable	*(14 000)*	
Cash Purchases of Inventory	*(5 000)*	
Wages	*(6 000)*	
GST Paid	*(950)*	
Electricity	*(500)*	
Rent Expense	*(2 400)*	
Interest Expense	*(550)*	*(29 400)*
Net Cash Flows from Operations		***(11 400)***
INVESTING ACTIVITIES		
Cash Outflows		
Shelving		*(1 600)*
Net Cash Flows from Investing Activities		***(1 600)***
FINANCING ACTIVITIES		
Loan – Bodgey Bank		*25 000*
Loan Repayment	*(1 000)*	
Drawings	*(2 000)*	*(3 000)*
Net Cash Flows from Financing Activities		***22 000***
Net Increase (Decrease) in Cash		***9 000***
Bank Balance at Start		***1 500***
Bank Balance at End		***10 500***

c Use spreadsheet

d

Discussion	*The owner should be happy that there has been a Net increase in cash*
	and therefore the Bank balance has increased.
	However, Net Cash Flows from Operations is negative meaning the business
	is not generating enough funds from its Operating activities to meet its other
	cash requirements.
	If not for the loan, the bank balance would have fallen into overdraft and
	the loan needs to be repaid at some point in the future which will mean a
	drain on cash resources.

e

Action 1	*Reduce selling price to encourage more cash sales /*
	Contact slow paying Accounts Receivable / Reduce payments on expenses
Action 2	*Reduce / defer payments to Accounts Payable / drawings/ loan repayments*
	Sell inefficient non-current assets

Exercise 11.4 Operating activities

a

Calculation					
Cash Sales	*60 000*	*less*	*GST paid*	*380*	
GST Received	*6 000*		*Electricity*	*1 200*	
	66 000		*Wages*	*6 000*	
			GST Settlement	*3 000*	
			Payments to Accounts Payable	*45 000*	
			Interest	*1 850*	
				57 430	
				Net Cash Flows from Operations	**$** *8 570*

b

Explanation *Not included in the cash flow statement as its currently a present obligation of the entity to be paid in a future period.*

c

Explanation *Positive Net Cash Flows from Operations are necessary so the business has cash to meet its requirements without using other sources of finance, such as loans (which must be repaid, plus interest) or capital (which is limited to the funds of the owner).*

d

Action 1 *Capital Contribution / Loan*

Action 2 *Increase sales: new lines, change prices, more effective advertising*
NB. No receipts from Accounts Receivable

Exercise 11.5 Operating activities

a

Calculation

GST Refund	*300*	*less*	*Interest paid*	*4 800*
Receipts from Accounts Receivable	*15 000*		*GST paid*	*1 900*
Cash Sales	*16 000*		*Rent paid*	*15 000*
GST Received	*1 600*			***21 700***
	32 900			

Net Cash Flows from Operations **$** *11 200*

b

Explanation *It is excluded from the Cash Flow Statement altogether*
as it is a non-cash expense.
It involves a decrease to Accounts Receivable rather than Bank.

c

Explanation *The receipts are from different entities (customers v. ATO) and*
may relate to different reporting Periods (current v. previous).

d

Action 1 *Reduce payments for expenses eg. Pay rent monthly*
Defer interest payments / Decrease drawings

Action 2 *Extra GST paid indicates cash payment for NCA - defer payment?*
NB. No payments to Accounts Payable

Exercise 11.6 Investing activities

a

Explanation	*Cash flows related to the purchase or sale of non-current assets*

b

Calculation

	Fittings	*5 600*	
+	*Deposit paid on furniture*	*800*	*6 400*

Net Cash Flows from Investing Activities $ *(6 400)*

c

Explanation *Excluded as it doesn't relate to non-current assets; inventory is a current asset, so cash purchases is an Operating outflow (as it relates to day-to-day trading activities).*

d

Explanation *All GST cash flows are reported as Operating activities as dealing with the GST – whether for current or non-current assets – is a day-to-day trading activity.*

e

Discussion *The owner may be concerned that Investing Cash flows arenegative as this will reduce cash on hand. However, this means the business is purchasing non-current assets which should contribute to revenue earning capacity meaning greater cash inflows in future.*

Exercise 11.7 Investing activities

a

Calculation		
	Vehicle	*32 000*
+	*Shelving*	*10 000*
Net Cash Flows from Investing Activities	**$**	*(42 000)*

b

Reason	*It includes GST on (some) Operating outflows.*

c

Method 1	*Existing cash reserves/overdraft*
Method 2	*Net Cash Flows from Operations*
Method 3	*Loan / Capital contribution*

d

Explanation	*It indicates the purchase of non-current assets which should mean*
	higher revenue and / or lower maintenance costs.

Exercise 11.8 Financing activities

a

Explanation	*Cash flows related to changes in the firm's financial structure.*
	Eg: Capital/Drawings & Loans/Loan Repayments

b

Calculation

Receipt of Loan – NAB 12 000 less Drawings 25 000

Net Cash Flows from Financing Activities **$** *(13 000)*

c

Explanation	*Excluded as it is an Operating outflow –*
	a cash flow related to the firm's day-to-day trading activities

d General Ledger

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Drawings **	*25 700*	**1/7/24**	**Balance**	**48 000**
	Balance	*38 300*	*30/6/25*	*Profit and Loss Summary*	*16 000*
		64 000			*64 000*
			1/7/15	*Balance*	*38 300*

Exercise 11.9 Financing activities

a

Explanation	*Upholding Relevance, it would be valued at its agreed value*
	(the price that would apply in an arm's length transaction)
	as this is up to date and most useful for decision making.

b

Calculation

Capital Contribution	*30 000*	*less*	*Loan Repayment*	*15 000*
			Cash Drawings	*8 700*
	30 000			*23 700*

Net Cash Flows from Financing Activities | **$** *6 300*

c

Explanation	*It is expressly excluded from the definition of revenue as it is*
	not earned as a result of the activities of the business
	but rather those of the owner.

d

Explanation	*If it involves the receipt of a Loan,*
	interest expense may increase leading to a reduction in Net Profit.

Exercise 11.10 Cash Flow Cover

a

Calculation

Cash Flow Cover (CFC) $= \dfrac{\text{Net Cash Flows from Operations}}{\text{Average Current Liabilities}} \times 100$

$= \dfrac{\$120\ 000}{(\$42\ 000 + 38\ 000)\ /2} \times 100$

= *1.75 times*

Cash Flow Cover	*3*	**times**

b

Reason	*Greater Cash Flows from Operations*
	Lower average current liabilities

c

Explanation	*It is higher (better) than March's result of 2.4 times,*
	meaning the business is more able to meet its current liabilities using its
	Operating cash.

d

Explanation	*It has not met their budgeted target of 3.6 times meaning*
	the business is not generating as much cash from Operating activities
	as expected / current liabilities are higher than expected.

e

Discussion	*The business has positive Operating cash and*
	its Cash Flow Cover is greater than 1 meaning it should be able to meet its
	short term debts as they fall due.
	However its cash flows from Investing and Financing activities are unknown
	and they affect the overall change in cash.
	Further the business does have a Bank overdraft
	(which may be approaching its limit?).

Exercise 11.11 Cash versus profit

a

Calculation		
Inventory	*300*	
Computer	*100*	
	GST paid	**$** *400*

b

Calculation		
Amount owing x 10% =	*410*	
so Amount owing =	*4 100*	
Receipt from Accounts Receivable =	*4 100 – 410*	
	Receipts from Accounts Receivable	**$** *3 690*

c BUZZ WAX PRODUCTS

Cash Flow Statement for August 2025

	$	$
OPERATING ACTIVITIES		
Cash Sales	*10 000*	
Receipts from Accounts Receivable	*3 690*	
GST Received	*1 000*	*14 690*
Payments to Accounts Payable	*(4 300)*	
Cash Purchases of Inventory	*(3 000)*	
Wages	*(5 000)*	
Interest Expense	*(750)*	
GST Paid	*(400)*	*(13 450)*
Net Cash Flows from Operations		***1 240***
INVESTING ACTIVITIES		
Computer		*(1 000)*
Net Cash Flows from Investing Activities		***(1 000)***
FINANCING ACTIVITIES		
Capital Contribution		*5 000*
Drawings		*(2 450)*
Net Cash Flows from Financing Activities		***2 550***
Net Increase (Decrease) in Cash		***2 690***
Bank Balance at Start		***(2 500)***
Bank Balance at End	***$***	***190***

d

Explanation	*The cash position is concerning because although the Bank Balance at End is*
	positive it is only $190 so there is little cash available to meet short-term debts
	as they fall due.
	However, there has been a Net Increase in Cash from last period,
	and Net Cash Flows from Operations are positive meaning the firm is
	generating enough cash.

d

Example 1	*Capital Contribution/GST Received was greater than GST Paid.*
Example 2	*Receipts from Accounts receivable was greater than Credit Sales.*
Explanation	*Capital Contribution is a cash inflow, which will increase Net Cash Flows*
	but is not a revenue and so will not affect the Net Loss.
	Receipts from Debtors (cash inflow) increased Net Cash Flows by more than
	Credit Sales (revenue) increased Net Profit (or decreased the loss).

e

Explanation	*It allows the owner to identify sources and uses of cash*
	to assess whether the business is generating sufficient Operating cash.
	This will help to identify problem areas so corrective action can be taken
	(particularly when it is compared against the Budgeted Cash Flow Statement).

Exercise 11.12 Cash versus profit

a

Higher/Lower	*Lower*
Justification	*Receipts from Accounts receivable and Discount Expense of $38 000*
	decreases Accounts receivable more than
	Credit Sales plus GST of $24 200 (which increases Accounts Receivable).

b

Calculation

Inventory	*4070*
Admin. expenses	*300*
Equipment	*1 380*
Insurance	*600*

GST paid | **$** *6 350*

c SAW MILLER FURNITURE

Cash Flow Statement for the quarter ended 30 June 2025

	$	$
OPERATING ACTIVITIES		
Receipts from Accounts Receivable	*36 500*	
Cash Sales	*25 000*	
GST Received	*2 500*	*64 000*
Cash Purchases of Inventory	*(40 700)*	
Administration Expenses	*(3 000)*	
Wages	*(11 900)*	
Insurance	*(6 000)*	
GST Paid	*(6 350)*	*(67 950)*
Net Cash Flows from Operations		***(3 950)***
INVESTING ACTIVITIES		
Equipment		*13 800*
Net Cash Flows from Investing Activities		***(13 800)***
FINANCING ACTIVITIES		
Loan – GIN Bank	*20 000*	
Capital Contribution	*6 000*	*26 000*
Drawings	*(13 500)*	
Loan Principal	*(1 100)*	*(14 600)*
Net Cash Flows from Financing Activities		***11 400***
Net Increase (Decrease) in Cash		***(6 350)***
Bank Balance at Start		***(1 600)***
Bank Balance at End		***(7 950)***

d

Reason	*To purchase the Equipment*
	without exceeding the overdraft limit of $8 000

e

Example 1	*Equipment / Repayment of loan / GST paid > rec'd*
Example 2	*Payments for inventory are greater than Cost of Sales*
Explanation	*Cash outflows such as repaying a loan / purchasing equipment decrease Bank*
	but are not expenses so do not affect Net Profit in that Period.
	Payments for inventory ($40 700) are cash outflows that decrease Bank more
	than the Cost of Sales ($23 500) expense decreases Net Profit.

f

Calculation

$$\text{Cash Flow Cover (CFC)} = \frac{\textit{Net Cash Flows from Operations}}{\textit{Average Current Liabilities}} \times 100$$

$$= \frac{\$3\ 950}{\$8\ 000} \times 100$$

$$= -0.49 \text{ times}$$

Cash Flow Cover | *-0.49* **times**

g

Explanation	*Improved from-4.3 last period to -0.49 this period*
	indicating improved ability to meet Current liabilities from Operating cash.
	(However, still < 1 so unable to meet current liabilities using only
	Operating cash.)

h

Action 1	*Purchase less inventory*
	Purchase inventory on credit
	Use strategies to generate faster Accounts Receivable Turnover
Action 2	*Strategies to increase cash sales*
	Decrease Drawings

Exercise 11.13 Cash versus profit

a

Calculation		
Rent	*600*	
Office equipment	*700*	
Cartage in	*400*	
	GST paid	**$** *1 700*

b FULL COLLECTION

Cash Flow Statement for January 2025

	$	**$**
OPERATING ACTIVITIES		
Receipts from Accounts Receivable		*29 000*
Rent expense	*(6 000)*	
GST Paid	*(1 700)*	
Cartage in	*(4 000)*	
Wages	*(15 000)*	*(26 700)*
Net Cash Flows from Operations		***2 300***
INVESTING ACTIVITIES		
Office Equipment		*(7 000)*
Net Cash Flows from Investing Activities		***(7 000)***
FINANCING ACTIVITIES		
Capital Contribution	*20 000*	
Loan – Kyneton Bank	*50 000*	*70 000*
Drawings		*(7 500)*
Net Cash Flows from Financing Activities		***62 500***
Net Increase (Decrease) in Cash		***57 800***
Bank Balance at Start		***nil***
Bank Balance at End		***57 800***

c FULL COLLECTION

Income Statement for January 2025

	$	$
Revenue		
Sales		*40 000*
less Cost of Goods Sold		
Cost of Sales		*20 000*
Gross Profit		***20 000***
less Other Expenses		
Interest Expense	*250*	
Rent Expense	*1 000*	
Wages	*15 000*	
Cartage Expenses	*4 000*	
Advertising	*1 000*	*21 250*
Net Profit (Loss)		***(1 250)***

d

Example 1	*Loan / Capital Contribution*
Example 2	*Inventory sold (COS) but unpaid / Interest Expense unpaid*
Explanation	*Loan / Capital Contribution are cash inflows that increase cash*
	but are not revenue so do not affect Net Profit.
	Cost of sales / interest are expenses that decrease Net Profit
	but are not cash outflows so do not affect cash until the next period

f

Discussion	*In terms of earning profit, the business has suffered a loss.*
	Although it is only the first month of operations and the firm is still establishing
	itself and its customer base the owner should be concerned that Wages
	expense consumes such a large portion of Gross Profit as do Cartage
	expenses.
	In terms of cash there is a large increase which gives the business funds to
	use to finance its activities.
	Positive Operating cash means it is generating enough cash to meet its
	day-to-day activities but it is yet to pay for Inventory (which will be at least
	$20 000 next month).
	The large bank balance is due mainly to a capital (which may not be possible
	every month) and the loan (which needs to be repaid starting next month).

Exercise 11.14 Cash flows

a

Calculation

	Payment	*5 700*
+	*Discount revenue*	*300*

Decrease in Accounts Payable | **$** *6 000*

b

Calculation

Inventory	*290*
Shelving	*160*

GST paid | **$** *450*

c THE GLASS HOUSE

Cash Flow Statement for October 2025

	$	$
OPERATING ACTIVITIES		
Cash Sales	*6 700*	
Receipts from Account Receivable	*5 200*	
GST Refund	*500*	
GST Received	*670*	*13 070*
Payments to Accounts Payable	*(5 700)*	
Cash Purchases of Inventory	*(2 900)*	
Wages	*(1 000)*	
Interest	*(100)*	
GST Paid	*(450)*	*(10 150)*
Net Cash Flows from Operations		***2 920***
INVESTING ACTIVITIES		
Shelving		*(1 600)*
Net Cash Flows from Investing Activities		***(1 600)***
FINANCING ACTIVITIES		
Drawings		*(2 110)*
Net Cash Flows from Financing Activities		***(2 110)***
Net Increase (Decrease) in Cash		***(790)***
Bank Balance at Start		***230***
Bank Balance at End	***$***	***(560)***

d General Ledger

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Oct. 1	*Balance*	*230*	*Oct.*	*Accounts Payable*	*5 700*
	Sales / GST Clearing	*7 370*		*Inventory / GST Clearing*	*3 190*
	GST Clearing	*500*		*Wages*	*1 000*
	Accounts Receivable	*5 200*		*Interest expense*	*100*
31	*Balance*	*560*		*Drawings*	*2 110*
				Shelving / GST Clearing	*1 760*
		13 860			*13 860*
			Nov. 1	*Balance*	*560*

e

Example 1	*Cash Purchase of Shelving*
Example 2	*Cash Drawings*
Explanation	*Both these cash outflows increase the Bank overdraft,*
	but are classified as Investing and Financing activities, respectively,
	and so have no effect on Net Cash Flows from Operations.

f

Explanation	*Options:*
	Reduce drawings / Defer purchasing the shelving until a future period
	Contribute capital / Take out a loan

g

Increase or Decrease	*Decrease (by $4000)*
Justification	*Negative Net Cash Flows from Operations ($4 000)*
	and Investing Activities ($6 000) will outweigh
	positive Net Cash Flows from Financing Activities ($6 000).

h

Explanation	*Net Cash Flows from Operations is negative*
	so the firm cannot meet its Investing and Financing cash requirements
	without additional loans (which must be repaid)
	or capital (which is limited to the funds of the owner).

i

Action 1	*Purchase less inventory (JIT)*
	Purchase inventory on credit . . .
	Defer payments to Accounts Payable . . .
Action 2	*Collect cash from Accounts Receivable faster by . . .*

j

Discussion	*Net Cash Flows from Investing Activities is negative which will mean*
	pressure on/a reduction in the firm's bank balance.
	However, it may be the result of purchasing new non-current assets
	(and this is supported by positive Financing cash flows, perhaps due to a loan
	or capital contribution) and more or better non-current assets may generate
	more sales.
	They may also be more efficient and cost less to maintain leading to better
	profit and liquidity.

Exercise 11.15 Cash versus profit

a

Explanation	*The cash cycle will be longer*
	as a result of the time it will take to collect the cash from Accounts Receivable.
	(depending on the credit terms and the strategies used by the business to
	collect this cash).

b

Calculation

$$\textit{Discount rate} = \frac{\textit{Discount}}{\textit{Amount owing}} = \frac{\$1\ 720}{\$170\ 280 + \$1720}$$

Discount rate *10* **%**

c

Calculation

Admin. Expenses	*100*
Rent	*1 100*
Insurance	*420*
Display cabinets	*800*

GST paid **$** *2 420*

a

Calculation

Decrease	*127 100*
- *Discount revenue*	*1 400*

Decrease in Accounts Payable **$** *125 700*

e

General Ledger

Accounts Receivable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1/7/24	*Balance*	*35 000*		*Bank/Discount Expense*	*172 000*
	Sales/GST Clearing	*198 000*		*Sales returns / GST Clearing*	*1 650*
			30/6/25	*Balance*	*59 350*
		233 000			*233 000*
1/7/25	*Balance*	*59 350*			

f BLING RINGS

Cash Flow Statement for the year ended 30 June 2025

	$	$
OPERATING ACTIVITIES		
Receipts from Accounts Receivable		*170 280*
Payments to Accounts Payable	*(125 700)*	
Wages	*(34 500)*	
Administration Expenses	*(1 000)*	
Rent Expense	*(11 000)*	
Insurance	*(4 200)*	
Interest Expense	*(3 000)*	
GST Settlement	*(1 100)*	
GST Paid	*(2 420)*	*(182 920)*
Net Cash Flows from Operations		***(12 640)***
INVESTING ACTIVITIES		
Display Cabinets		*(8 000)*
Net Cash Flows from Investing Activities		***(8 000)***
FINANCING ACTIVITIES		
Loan – QZ FinCo.		*15 000*
Drawings		*(13 500)*
Net Cash Flows from Financing Activities		***1 500***
Net Increase (Decrease) in Cash		***(19 140)***
Bank Balance at Start		***30 000***
Bank Balance at End		***10 860***

g

Example 1	*Credit Sales is greater than Receipts from Accounts Receivable.*
Example 2	*Payments to Accounts Payable is greater than Cost of Sales.*
Explanation	*Credit Sales is revenue and so increases Net Profit by more than Receipts*
	from Accounts Receivable increases Net Cash Flows from Operations.
	Payments to Accounts Payable is a cash outflow, which decreases Net Cash
	Flows from Operations more than Insurance expense decreases Net Profit.

h

Action	*Issuing statement of accounts / reminder letters / threatening legal action etc*
	This will result in Accounts Receivable paying at a faster rate.

Exercise 12.1 Prepaid expense

a General Journal

Date	Details	Debit $	Credit $
March 1	*Prepaid Rent Expense*	*6 600*	
	GST Clearing	*600*	
	Bank		*6 600*
	Paid 6 months' rent in advance (Ch. 34)		

b

Accounting Assumption	*Period / Accrual basis*
Explanation	*The business will have the use of the premises for March–June 2025, and will therefore consume / incur some of the rent in the Reporting Period ending 30 June 2015. The amount incurred will be reported as an expense. (The remaining rent for July and August will remain prepaid as at 30 June 2025.)*

c

Calculation

$$\frac{\$6\ 000}{6\ \text{months}} \times 4\ \text{months' consumed (Mar.–June inclusive)}$$

$$= \$1\ 000 \times 4$$

Rent expense $ *4 000*

d General Journal

Date	Details	Debit $	Credit $
June 30	*Rent Expense*	*4 000*	
	Prepaid Rent Expense		*4 000*
	Adjustment for rent for year ended 30 June 2025		
	(Memo 51)		

e

Explanation	*Assets (Prepaid rent) decrease by $4 000 because this amount has been c*
	consumed and will no longer provide an economic benefit.
	Liabilities are not affected.
	Owner's equity decreases as Rent expense increases $4 000 leading to a
	decrease in Net profit as this amount has been incurred in the current Period.

f General Ledger

Prepaid Rent Expense (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 1	*Bank*	*6 000*	*June 30*	*Rent Expense*	*4 000*
				Balance	*2 000*
		6 000			*6 000*
July 1	*Balance*	*2 000*			

Rent Expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Prepaid Rent Expense*	*4 000*	*June 30*	*Profit & Loss Summary*	*4 000*
		4 000			*4 000*

Exercise 12.2 Prepaid expense

a General Journal

Date	Details	Debit $	Credit $
Feb. 11	*Prepaid Office Supplies*	*300*	
	GST Clearing	*30*	
	Bank		*330*
	Paid for Office Supplies (Chq 153)		

b

Calculation

$300 prepaid *less* *$60 still on hand*

= *$240*

Office supplies expense | **$** *240*

c **General Journal**

Date	Details	Debit $	Credit $
Feb. 28	*Office Supplies Expense*	*240*	
	Prepaid Office Supplies		*240*
	Balance day adjustment to record office supplies		
	consumed (Memo 84)		

d General Ledger

Prepaid Office Supplies (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 11	*Bank*	*300*	*Feb. 28*	*Office Supplies Expense*	*240*
				Balance	*60*
		300			*300*
Mar. 1	*Balance*	*60*			

Office Supplies Expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 28	*Prepaid Office Supplies*	*240*	*Feb. 28*	*Profit & Loss Summary*	*240*
		240			*240*

e RONNIE'S CAR PARTS

Balance Sheet (extract) as at 28 February 2025

Current Assets	**$**	**$**
Prepaid Office Supplies		*60*

Exercise 12.3 Prepaid expense

a

Qualitative characteristic	*Relevance*
Explanation	*Balance day adjustments ensure that profit is calculated accurately by*
	comparing revenues earned against expenses incurred in the current Period.
	This ensures reports contain all information that is capable of making a
	difference to decision-making.

b

Calculation

$$\frac{\$1\ 800}{9 \text{ months remaining}} \times 1 \text{ month consumed}$$

(i.e. Jan.–Mar. consumed already)

Insurance expense $ *200*

c General Journal

Date	Details	Debit $	Credit $
April 30	*Insurance Expense*	*200*	
	Prepaid Insurance		*200*

d

	Overstated/Understated/No effect	Amount $
Assets	*Overstated (Prepaid Insurance)*	*200*
Liabilities	*No effect*	
Owner's Equity	*Overstated (Understated Insurance Expense means overstated Net Profit)*	*200*

e MAXWELL'S SHOES

Balance Sheet (extract) as at 31 July 2025

Current Assets	$	$
Prepaid Insurance		*1 000*

Exercise 12.4 Prepaid expense

a General Journal

Date	Details	Debit $	Credit $
June 27	Prepaid Advertising	2 000	
	GST Clearing	200	
	Bank		2 200
	Paid for 5 advertisements to appear July - November		
	(EFT Trans. 307)		

b

Explanation	As a Current Asset: Prepaid Advertising $2 000.
	It is a present economic resource controlled by the entity as a result of past
	events that has the right to produce future economic benefit when the
	advertisements appear in the magazine within the next 12 months.

c

Calculation

$$\frac{\$2\,000}{5 \text{ months}} \times 3 \text{ months consumed (July, Aug., Sept.)}$$

$$= \$400 \times 3$$

Advertising expense $ 1 200

d General Journal

Date	Details	Debit $	Credit $
Sept. 30	Advertising Expense	1 200	
	Prepaid Advertising		1 200
	Balance day adjustment to record 3 months' advertising		
	consumed (Memo 82)		

e General Ledger

Prepaid Advertising (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*2 000*	*Sept. 30*	*Advertising Expense*	*1 200*
				Balance	*800*
		2 000			*2 000*
Oct. 1	*Balance*	*800*			

Advertising expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 30	*Prepaid Advertising*	*1 200*	*Sept. 30*	*Profit and Loss Summary*	*1 200*
		1 200			*1 200*

f

Explanation	*Net Profit would be overstated by $1 200 as*
	Advertising Expense would be understated by $1 200.

Exercise 12.5 Prepaid expense

a

Calculation

	Rent paid 31 August	*$1 500*
+	*Rent paid 28 February*	*1 800*
	Total rent paid	*$3 300*

Rent paid $ *3 300*

b

Calculation

Sept.–Feb.: = *$1 500*

Mar –June: $\frac{1\ 800}{6 \text{ months}}$ x *4 consumed* = *$1 200*

$2 700

Rent expense $ *2 700*

c

Explanation *Of the $3 300 rent paid, only the $2 700 that will be consumed/incurred in the current Reporting Period is considered to be Rent expense. The remaining $600 will not be incurred until the next Reporting Period: it is not part of the expense figure, but actually an asset – a future economic benefit.*

d General Journal

Date	Details	Debit $	Credit $
June 30	*Rent Expense*	*2 700*	
	Prepaid Rent Expense		*2 700*

e General Ledger

Prepaid Rent Expense (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Bank*	*1 500*	*June 30*	*Rent Expense*	*2 700*
Feb. 28	*Bank*	*1 800*		*Balance*	*600*
		3 300			*3 300*
July 1	*Balance*	*600*			

Rent Expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Prepaid Rent Expense*	*2 700*	*June 30*	*Profit and Loss Summary*	*2 700*
		2 700			*2 700*

f

Explanation	*Assets (Prepaid rent) would be overstated by $2 700 as this amount would be showing as part of the economic benefit yet to be consumed.*
	Liabilities would not be affected.
	Owner's equity would be overstated by $2 700 as Rent expense would be understated and Net profit overstated by the amount of the expense not recognised as incurred in the current Period.

Exercise 12.6 Accrued expense

a

Calculation

	Advertising paid	*$10 000*
+	*Advertising owing*	*3 000*
	Total advertising expense	*$13 000*
	Advertising expense	**$** *13 000*

b

Qualitative characteristic	*Relevance*
Explanation	*The advertising has been incurred/consumed in the year ending 31 December 2025 and so should be included as an expense in the current Reporting Period to ensure that the reports include all information that is useful for decision-making.*

c General Journal

Date	Details	Debit $	Credit $
Dec. 31	*Advertising Expense*	*3 000*	
	Accrued Advertising		*3 000*
	Balance day adjustment to record advertising owing		
	(Memo 44)		

d

	Increase/Decrease/No effect	Amount $
Assets	*No effect*	
Liabilities	*Increase (Accrued Advertising)*	*3 000*
Owner's Equity	*Decrease (Increase Advertising Expense means decrease Net Profit)*	*3 000*

e **General Ledger**

Advertising Expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Bank*	*10 000*	*Dec. 31*	*Profit and Loss Summary*	*13 000*
	Accrued Advertising	*3 000*			
		13 000			*13 000*

Accrued Advertising (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Balance*	*3 000*	*Dec. 31*	*Advertising Expense*	*3 000*
		3 000			*3 000*
			Jan. 1	*Balance*	*3 000*

f

Explanation	*As a Current Liability: Accrued Advertising $3 000, it is a present obligation of*
	to transfer an economic resource within the next 12 months (when the
	advertising owing is paid).

Exercise 12.7 Accrued expense

a

Calculation

$$\frac{\$1\ 260 \text{ per fortnight}}{14 \text{ days}} \times 5 \text{ days owing} \quad (26\text{–}30 \text{ June inclusive})$$

$$= \$90 \times 5$$

Accrued wages | $ *450*

b General Journal

Date	Details	Debit $	Credit $
June 30	*Wages*	*450*	
	Accrued Wages		*450*
	Balance day adjustment to record 5 days wages owing		
	(Memo 17)		

c General Ledger

Wages (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 25	*Bank*	*1 260*	*June 30*	*Profit and Loss Summary*	*1 710*
June 30	*Accrued Wages*	*450*			
		1 710			*1 710*

Accrued Wages (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Balance*	*450*	*June 30*	*Wages*	*450*
		450			*450*
			July 1	*Balance*	*450*

d General Journal

Date	Details	Debit $	Credit $
July 9	*Accrued Wages*	*450*	
	Wages	*810*	
	Bank		*1 260*
	Paid wages to employee (EFT Trans. 236)		

e

Accounting assumption	*Period*
Explanation	*Of the $1 260 paid in July 2025 only $810 will be incurred in the current Period (July 2025):*
	$450 was incurred (and accrued) in the previous Period (June 2025).

Exercise 12.8 Accrued expense

a

Calculation

($24 000 x 8 %) *x $^{8}/_{12}$* *months* *(Nov.–June inclusive)*

= *$1 920* *x $^{8}/_{12}$*

Interest expense | $ *1 280*

b General Journal

Date	Details	Debit $	Credit $
June 30	*Interest Expense*	*320*	
	Accrued Interest Expense		*320*

c General Ledger

Interest Expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Apr. 30	*Bank*	*960*	*June 30*	*Profit and Loss Summary*	*1 280*
June 30	*Accrued Interest Exp.*	*320*			
		1 280			*1 280*

Accrued Interest Expense (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Balance*	*320*	*June 30*	*Interest Expense*	*320*
		320			*320*
			July 1	*Balance*	*320*

d

Explanation *Net Profit would be overstated by $320.*

(Interest Expense would be understated by $320.)

e General Journal

Date	Details	Debit $	Credit $
Oct 31	*Accrued Interest Expense*	*320*	
	Interest Expense	*640*	
	Bank		*960*
	Paid interest (Chq 196)		

f

	Increase/Decrease/No effect	Amount $
Assets	*Decrease (Bank)*	*960*
Liabilities	*Decrease (Accrued Interest Expense)*	*320*
Owner's Equity	*Decrease (increased Interest Expense means decreased Net Profit)*	*640*

Exercise 12.9 Accrued expense

a

Calculation

	Electricity incurred/expense	*$4 600*
–	*Electricity paid*	*4 000*
	Electricity accrued/owing	*$600*

Accrued electricity $ *600*

b General Journal

Date	Details	Debit $	Credit $
Apr. 30	*Electricity Expense*	*600*	
	Accrued Electricity		*600*
	Balance day adjustment to record electricity owing		
	(Memo 31)		

c General Ledger

Electricity Expense (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Apr. 30	*Bank*	*4 000*	*Apr. 30*	*Profit and Loss Summary*	*4 600*
	Accrued Electricity	*600*			
		4 600			*4 600*

Accrued Electricity (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Apr. 30	*Balance*	*600*	*Apr. 30*	*Electricity*	*600*
		600			*600*
			May 1	*Balance*	*600*

d

	Overstated/Understated/No effect	Amount $
Assets	*No effect*	
Liabilities	*Understated (Accrued Electricity)*	*600*
Owner's Equity	*Overstated (Understated Electricity means overstated Net Profit)*	*600*

e General Journal

Date	Details	Debit $	Credit $
Oct 31	*Accrued Electricity*	*600*	
	Electricity	*1 900*	
	GST Clearing	*250*	
	Bank		*2 750*
	Paid Electricity (Chq 196)		

Exercise 12.10 Accrued expense

a General Journal

Date	Details	Debit $	Credit $
Aug. 5	*Accrued Cleaning*	*450*	
	Cleaning expense	*1 250*	
	GST Clearing	*170*	
	Bank		*1 870*
	Paid Cleaning expenses for July / August (Cheque 201)		

b

Calculation

	Cleaning expenses paid	*$1 250*
+	*Accrued cleaning expenses*	*510*
	Cleaning expenses	*$1 760*

Cleaning expense | $ *1 760*

c **General Journal**

Date	Details	Debit $	Credit $
Aug. 31	*Cleaning Expense*	*510*	
	Accrued Cleaning Expenses		*510*
	Balance day adjustment to record cleaning expenses owing		
	(Memo 12)		

d **General Ledger**

Accrued Cleaning Expenses (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Bank*	*450*	*Aug. 1*	*Balance*	*450*
	Balance	*510*	*31*	*Cleaning Expenses*	*510*
		960			*960*
			Sept. 1	*Balance*	*510*

e

Explanation	*Assets would not be affected.*
	Liabilities (Accrued Cleaning expenses) would be understated by $510
	because the amount still owing to the supplier would not be shown.
	Owner's equity would be overstated by $510 because Cleaning expenses
	would be understated because the amount incurred but yet to be paid would
	not be shown leading to Net profit overstated.

f

Accounting assumption	*Period / Accrual basis*
Justification	*The expense must be recognised in the Period in which it was incurred*
	(i.e. August 2025), regardless of when it is paid.

Exercise 12.11 Reporting prepaid and accrued expenses

a/c General Journal

Date	Details	Debit $	Credit $
June 30	*Inventory Loss*	*400*	
	Inventory		*400*
June 30	*Rent Expense*	*900*	
	Prepaid Rent Expense		*900*
June 30	*Wages*	*1 200*	
	Accrued Wages		*1 200*
June 30	*Sales*	*96 500*	
	Discount Revenue	*200*	
	Sales returns		*700*
	Profit and Loss Summary		*96 000*
June 30	*Profit and Loss Summary*	*94 020*	
	Advertising		*3 850*
	Cost of Sales		*57 000*
	Discount Expense		*250*
	Freight In		*600*
	Interest Expense		*220*
	Wages		*30 800*
	Inventory Loss		*400*
	Rent Expense		*900*
June 30	*Profit and Loss Summary*	*1 980*	
	Capital		*1 980*
June 30	*Capital*	*4 300*	
	Drawings		*4 300*

b PICKFORD PAINTS

Post-adjustment Trial Balance as at 30 June 2025

Account	Debit $	Credit $
Accounts Payable		*30 400*
Accounts Receivable	*23 100*	
Advertising	*3 850*	
Bank	*1 050*	
Capital – Pickford		*27 250*
Cost of Sales	*57 000*	
Discount Expense	*250*	
Discount Revenue		*200*
Drawings	*4 300*	
Freight In	*600*	
GST Clearing		*120*
Interest Expense	*220*	
Inventory	*45 200*	
Loan – Bank of Wilco		*40 000*
Office Equipment	*7 900*	
Prepaid Rent Expense	*3 600*	
Sales		*96 500*
Sales returns	*700*	
Shop Fittings	*15 800*	
Wages	*30 800*	
Inventory Loss	*400*	
Rent Expense	*900*	
Accrued Wages		*1 200*
Total	***195 670***	***195 670***

d

Accounting assumption	*Period*
Explanation	*To ensure that profit is calculated accurately*
	by comparing revenues earned against expenses incurred
	in the current Period.

e PICKFORD PAINTS

Income Statement for June 2025

	$	$
Revenue		
Sales	*96 500*	
less Sales returns	*700*	*95 800*
less Cost of Goods Sold		
Cost of Sales	*57 000*	
Freight In	*600*	*57 600*
Gross Profit		***38 200***
less Inventory Loss		*400*
Adjusted Gross Profit		***37 800***
add Other Revenue		
Discount Revenue		*200*
		38 000
less Other Expenses		
Advertising	*3 850*	
Discount Expense	*250*	
Interest Expense	*220*	
Wages	*30 800*	
Rent Expense	*900*	*36 020*
Net Profit (Loss)		***1 980***

f

Explanation	*Change the format eg. radio to reach painters on the job*
	Collect data on the location of its customers and advertise to their wants

g PICKFORD PAINTS

Balance Sheet as at 30 June 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank	*1 050*		*Accounts Payable*	*30 400*	
Accounts Receivable	*23 100*		*GST Clearing*	*120*	
Prepaid Rent Expense	*3 600*		*Loan – Bank of Wilco*	*6 000*	
Inventory	*45 200*	*72 950*	*Accrued Wages*	*1 200*	*37 720*
Non-Current Assets			***Non-Current Liabilities***		
Office Equipment	*7 900*		*Loan – Bank of Wilco*		*34 000*
Shop Fittings	*15 800*	*23 700*			
			Owner's Equity		
			Capital – Pickford	*27 250*	
			add Net Profit	*1 980*	
				29 230	
			less Drawings	*4 300*	*24 930*
Total Assets		***96 650***	***Total Equities***		***96 650***

h

Explanation	*It includes the effects of balance day adjustments,*
	ensuring the reports contain all information that is capable of making a
	difference to decision making (such as expenses incurred but not paid, or
	incurred but paid earlier).

Exercise 12.12 Reporting prepaid and accrued expenses

a/c General Journal

Date	Details	Debit $	Credit $
Dec. 31	*Inventory Loss*	*300*	
	Inventory		*300*
Dec. 31	*Insurance Expense*	*900*	
	Prepaid Insurance		*900*
Dec. 31	*Interest Expense*	*3 600*	
	Accrued Interest Expense		*3 600*
Dec. 31	*Sales*	*191 600*	
	Discount Revenue	*580*	
	Sales returns		*1 200*
	Profit and Loss Summary		*190 980*
Dec. 31	*Profit and Loss Summary*	*138 430*	
	Advertising		*8 200*
	Buying Expenses		*3 000*
	Cost of Sales		*92 000*
	Discount Expense		*1 230*
	Interest Expense		*5 400*
	Inventory write-down		*400*
	Wages		*27 000*
	Inventory Loss		*300*
	Insurance Expense		*900*
Dec. 31	*Profit and Loss Summary*	*52 550*	
	Capital		*52 550*
Dec. 31	*Capital*	*31 000*	
	Drawings		*31 000*

b MARANELLI SPORTS

Post-adjustment Trial Balance as at 31 December 2025

Account	**Debit $**	**Credit $**
Accounts Payable		*18 300*
Accounts Receivable	*12 400*	
Advertising	*8 200*	
Bank		*2 300*
Buying Expenses	*3 000*	
Capital – Maranelli		*85 430*
Cost of Sales	*92 000*	
Discount Expense	*1 230*	
Discount Revenue		*580*
Drawings	*31 000*	
Fittings and Fixtures	*26 800*	
GST Clearing		*320*
Interest Expense	*5 400*	
Inventory	*31 700*	
Inventory write-down	*400*	
Mortgage – HH Finance		*180 000*
Premises	*240 000*	
Prepaid Insurance	*600*	
Sales		*191 600*
Sales returns	*1 200*	
Wages	*27 000*	
Inventory Loss	*300*	
Insurance Expense	*900*	
Accrued Interest Expense		*3 600*
Total	***482 130***	***482 130***

d

Explanation	*By reporting revenues earned and expenses incurred in the current Period,*
	balance day adjustments ensure that the Income Statement includes
	all information that is useful for decision-making.

e MARANELLI SPORTS

Income Statement for the 6 months ended 31 December 2025

	$	$
Revenue		
Sales	*191 600*	
less Sales returns	*1 200*	*190 400*
less Cost of Goods Sold		
Cost of Sales	*92 000*	
Buying Expenses	*3 000*	*95 000*
Gross Profit		***95 400***
less Inventory Loss	*300*	
Inventory write-down	*400*	*700*
Adjusted Gross Profit		***94 700***
add Other Revenue		
Discount Revenue		*580*
		95 280
less Other Expenses		
Advertising	*8 200*	
Discount Expense	*1 230*	
Interest Expense	*5 400*	
Wages	*27 000*	
Insurance Expense	*900*	*42 730*
Net Profit		***52 550***

f

Assessment	*Maranelli Sports has applied an average mark-up of 100%, which has been*
	high enough to cover its Other Expenses and
	provide for a Net Profit of $52 550 for just 6 months.
	Whether this is sufficient depends on the expectations of the owner

g

Strategy 1	*Wages: review and change rosters to ensure the appropriate number of staff*
	Cost of sales: change to a cheaper supplier
	Buying expenses: order in bulk to reduce delivery expenses
Strategy 2	*Inventory loss / write down: rotate inventory / physical safeguards*
	Interest expense: pay off loan balances

h MARANELLI SPORTS

Balance Sheet as at 31 December 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Accounts Receivable	*12 400*		*Bank (overdraft)*	*2 300*	
Prepaid Insurance	*600*		*Accounts Payable*	*18 300*	
Inventory	*31 700*	*44 700*	*GST Clearing*	*320*	
			Mortgage – HH Finance	*12 000*	
Non-Current Assets			*Accrued Interest Expense*	*3 600*	*36 520*
Fixtures and Fittings	*26 800*				
Premises	*240 000*	*266 800*	**Non-Current Liabilities**		
			Mortgage – HH Finance		*168 000*
			Owner's Equity		
			Capital – Maranelli	*85 430*	
			add Net Profit	*52 550*	
				137 980	
			less Drawings	*31 000*	*106 980*
Total Assets		***311 500***	**Total Equities**		***311 500***

i

Explanation	*It is unethical to present an incomplete / inaccurate picture of the firm's profit performance as users rely on this to make decisions.*

Exercise 12.13 Reporting for prepaid and accrued expenses

a/c General Journal

Date	Details	Debit $	Credit $
Mar. 31	*Inventory*	*2 200*	
	Inventory Gain		*2 200*
Mar. 31	*Inventory write-down*	*800*	
	Inventory		*800*
Mar. 31	*Rent Expense*	*1 200*	
	Prepaid Rent Expense		*1 200*
Mar. 31	*Wages*	*360*	
	Accrued Wages		*360*
Mar. 31	*Office Supplies Expense*	*110*	
	Prepaid Office Supplies		*110*
Mar. 31	*Sales*	*62 400*	
	Discount Revenue	*310*	
	Inventory Gain	*2 200*	
	Sales returns		*400*
	Profit and Loss Summary		*64 510*
Mar. 31	*Profit and Loss Summary*	*38 250*	
	Advertising		*1 750*
	Cost of Sales		*24 800*
	Discount Expense		*140*
	Interest Expense		*90*
	Wages		*9 360*
	Inventory write-down		*800*
	Rent Expense		*1 200*
	Office Supplies Expense		*110*
Mar. 31	*Profit and Loss Summary*	*26 260*	
	Capital		*26 260*
Mar. 31	*Capital*	*21 000*	
	Drawings		*21 000*

b ALANNAH FASHIONS

Post-adjustment Trial Balance as at 31 March 2025

Account	Debit $	Credit $
Accounts Payable		*40 600*
Accounts Receivable	*21 700*	
Advertising	*1 750*	
Bank		*4 100*
Capital – Alannah		*48 350*
Cost of Sales	*24 800*	
Discount Expense	*140*	
Discount Revenue		*310*
Drawings	*21 000*	
GST Clearing	*400*	
Interest Expense	*90*	
Inventory	*40 400*	
Loan – FinCo.		*15 000*
Office Equipment	*6 300*	
Prepaid Office Supplies	*70*	
Prepaid Rent Expense	*4 800*	
Sales		*62 400*
Sales returns	*400*	
Shop Fittings	*40 000*	
Wages	*9 360*	
Inventory Gain		*2 200*
Inventory write-down	*800*	
Rent Expense	*1 200*	
Accrued Wages		*360*
Office Supplies Expense	*110*	
Total	***173 320***	***173 320***

d General Ledger

Profit and Loss Summary

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 31	*Expenses*	*38 250*	*Mar. 31*	*Revenues*	*64 510*
	Capital	*26 260*			
		63 710			*63 710*

e ALANNAH FASHIONS

Income Statement for March 2025

	$	$
Revenue		
Sales	*62 400*	
less Sales returns	*400*	*62 000*
less Cost of Goods Sold		
Cost of Sales		*24 800*
Gross Profit		***37 200***
add Inventory Gain	*2 200*	
less Inventory write-down	*(800)*	*1 400*
Adjusted Gross Profit		***38 600***
add Other Revenue		
Discount Revenue		*310*
		38 910
less Other Expenses		
Advertising	*1 750*	
Discount Expense	*140*	
Interest Expense	*90*	
Wages	*9 360*	
Rent Expense	*1 200*	
Office Supplies Expense	*110*	*12 650*
Net Profit		***26 260***

f

Reason 1	*Out of fashion*
	Damaged
Reason 2	*Deliberate strategy to increase sales*

g

Calculation

	Wages expense (pre-adj.)	*$9 000*	
+	*Wages accrued at start*	*310*	*$9 310*

Cash paid for wages | $ *9 310*

h **ALANNAH FASHIONS**

Balance Sheet as at 31 March 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Accounts Receivable	*21 700*		*Bank Overdraft*	*4 100*	
GST Clearing	*400*		*Accounts Payable*	*40 600*	
Prepaid Office Supplies	*70*		*Accrued Wages*	*360*	*45 060*
Prepaid Rent Expense	*4 800*				
Inventory	*40 400*	*67 370*	***Non-Current Liabilities***		
			Loan – FinCo		*15 000*
Non-Current Assets					
Office Equipment	*6 300*		***Owner's Equity***		
Shop Fittings	*40 000*	*46 300*	*Capital – Alannah*	*48 350*	
			add Net Profit	*26 260*	
				74 610	
			less Drawings	*21 000*	*53 610*
Total Assets		***113 670***	***Total Equities***		***113 670***

i

Reason	*Decision to increase range of clothing (which has not yet sold)*
Justification	*GST on the purchase will be greater than the GST on sales*
	meaning the business is owed GST by the ATO.

j General Journal

Date	Details	Debit $	Credit $
Apr. 2	*Accrued Wages*	*360*	
	Wages	*1 240*	
	Bank		*1 600*

k

Explanation	*Assets (Bank) decrease by $1 600 as cash is paid to the employees.*
	Liabilities (Accrued wages) decrease by $360 as the amount owing from last
	Period is 'paid off'.
	Owner's equity decreases $1 260 as Wages expense of $1 240 decreases
	Net profit by the amount incurred in the current Period.

Exercise 13.1 Calculating Depreciation

a

Definition	*The process of allocating the cost of a non-current asset (as an expense) over*
	its useful life

b

Calculation

$$\text{Depreciation} = \frac{\$15\,000 - \$3\,000}{5}$$

$$= \$2\,400 \text{ p.a.}$$

Depreciation of office furniture	**$** *2 400*

c

Explanation	*The GST is not included in the cost of the asset*
	as it does not affect the economic benefit provided by the office furniture /
	it will not provide an economic benefit for the life of the asset (5 years) but
	will reduce the GST liability only when the asset is purchased.

d

Explanation	*Residual value represents the estimated value of the non-current asset at the*
	end of its useful life or the cost of the asset that will not be consumed by
	Shovel and Shift. The residual value is not allocated as depreciation expense
	as it will not be incurred by Shovel and Shift.

Exercise 13.2 Calculating Depreciation

a

Accounting principle	*The Period assumption*
Explanation	*To ensure that the cost incurred in relation to a non-current asset is reported as an expense in each Period in which the asset earns revenue. This ensures that profit is calculated accurately.*

b

Calculation

$$\text{Depreciation} = \frac{\$30\ 000 - \$6\ 000}{8}$$

$$= \$3\ 000 \text{ p.a.}$$

Depreciation of shelving $ *3 000*

c

Calculation

$$\text{Depreciation rate} = \frac{\$3\ 000}{\$30\ 000}$$

$$= 10\ \%\ \text{pa.}$$

Rate of depreciation *10* **%**

d

Discussion *Faithful representation requires that information represent its real-world economic value and must be complete, neutral and free from error. Depreciation expense is based on estimate of useful life and residual value meaning it is not entirely neutral or free from bias. However, depreciation expense means the reports provide a more Faithful representation than if it was omitted entirely as it allocates the cost of a non-current asset over its useful life, thereby estimating how much of its value has been incurred in the current Period. Depreciation expense, although based on estimates, is more accurate than no expense at all.*

Exercise 13.3 Calculating Depreciation: Rate

a

Calculation

Depreciation = $40 000 x 10%

= $4 000 p.a.

Depreciation of van $ *4 000*

b

Explanation *Relevance requires the inclusion of all information that is capable of making a difference to decision making.*

Depreciation represents the cost of the non-current asset incurred in the current period and thus assists in matching revenues earned against expenses incurred, which affects decisions about profit.

c

Explanation *No effect*

as it is a non-cash expense.

d

Calculation

Acc. Depreciation = $4 000 x 8 years

Residual value = HC – Acc. Depreciation

= $40 000 - $32 000

Residual value $ *8 000*

Exercise 13.4 Calculating Depreciation: Less than a year

a

Explanation	*The Period assumption requires that reports are prepared for a particular*
	period of time.
	The cabinets were only held for 5 months during the period ended 30 June
	2025 they should only be depreciated for 5 months, rather than a full year.

b

Calculation

Depreciation = $1 800 x 20% x 5/12

= $150

Depreciation of cabinets	**$** *150*

c

Effect	*Net Profit would be understated by $210*
	due to depreciation being overstated by $210.

d

Calculation

Depreciation = $1 800 x 20%

= $360

Depreciation of cabinets	**$** *360*

Exercise 13.5 Recording Depreciation

a

Calculation

$$\text{Depreciation} = \frac{\$12\,000 - \$3\,000}{6} = \$1\,500 \text{ per year}$$

Depreciation of equipment $ *1 500*

b General Journal

Date	Details	Debit $	Credit $
June 30	*Depreciation of Equipment*	*1 500*	
	Accumulated Depreciation of Equipment		*1 500*
	Depreciation of cabinets – s/line method at 20% pa		
	(Memo 44)		

c General Ledger

Depreciation of Equipment (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Acc. Dep. of Equipment*	*1 500*	*June 30*	*Profit and Loss Summary*	*1 500*
		1 500			*1 500*

Accumulated Depreciation of Equipment (–A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Balance*	*1 500*	*June 30*	*Depreciation of Equipment*	*1 500*
		1 500			*1 500*
			July 1	*Balance*	*1 500*

d ROAMIN' BLINDS

Balance Sheet (extract) as at 30 June 2025

Non-Current Assets	**$**	**$**
Equipment	*12 000*	
less Accumulated Depreciation	*1 500*	*10 500*

e

Explanation	*Relevance requires the inclusion of all information that is capable of making a*
	difference to decision making. The carrying value is the most up-to-date
	valuation of the equipment as it reflects the unallocated cost / unused value
	at that point in time.

Exercise 13.6 Recording Depreciation

a

1.	*Historical cost –the purchase price of the Office Furniture and all costs incurred to get*
	the asset into condition and location ready for use
2.	*Accumulated depreciation –the cost of the Office Furniture that has been consumed /*
	incurred over its life to date
3.	*Carrying value – the future economic benefit remaining;*
	the value that has yet to be consumed by the firm (plus RV)

b General Journal

Date	Details	Debit $	Credit $
June 30	*Depreciation of Office Furniture*	*3 000*	
	Accumulated Depreciation of Equipment		*3 000*

c

General Ledger

Depreciation of Office Furniture (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Acc. Dep. of Equipment*	*3 000*	*30/6/15*	*Profit and Loss Summary*	*3 000*
		3 000			*3 000*

Accumulated Depreciation of Office Furniture(–A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Balance*	*12 000*	*1/7/24*	*Balance*	*9 000*
			30/6/25	*Depreciation of Equipment*	*3 000*
		12 000			*12 000*
			1/7/25	*Balance*	*12 000*

d

JUNGLE JANE

Balance Sheet (extract) as at 30 June 2025

Non-Current Assets	**$**	**$**
Office Furniture	*29 000*	
less Accumulated Depreciation	*12 000*	*17 000*

e

Calculation

$$\text{Depreciation} = \frac{HC - RV}{\text{Life}}$$

$$\$3\,000 = \frac{29\,000 - 2\,000}{\text{Life}}$$

$$\text{Useful life} = \frac{\$27\,000}{\$3\,000}$$

$$= 9 \text{ years}$$

Useful life | *9* **years**

Exercise 13.7 Recording Depreciation

a

Calculation

Carrying value = Historical cost – Acc. dep.

$16 000 = $20 000 – Acc. dep.

Acc. dep. = $20 000 – $16 000

Accumulated depreciation of shop fittings | $ *4 000*

b

Calculation

Existing shop fittings = $20 000 x 10%

= $2 000

New shop fittings = $5 000 x 10% x $^{3}/_{12}$

= $125

Depreciation of shop fittings | $ *2 125*

c **General Journal**

Date	Details	Debit $	Credit $
June 30	*Depreciation of Shop Fittings*	*2 125*	
	Accumulated Depreciation of Shop Fittings		*2 125*
	Depreciation of shop fittings – s/line method		
	(Memo 23)		

D

General Ledger

Depreciation of Shop Fittings (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Acc. Dep. of Equipment*	*2 125*	*30/6/15*	*Profit and Loss Summary*	*2 125*
		2 125			*2 125*

Accumulated Depreciation of Shop Fittings (–A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Balance*	*6 125*	*1/7/24*	*Balance*	*4 000*
			30/6/25	*Depreciation of Equipment*	*2 125*
		6 125			*6 125*
			1/7/25	*Balance*	*6 125*

e

Qualitative Characteristic	*Verifiability*
Explanation	*The original purchase price of the asset is verifiable*
	by reference to the source document.

f FROST FRIDGES

Balance Sheet (extract) as at 30 June 2025

Non-Current Assets	**$**	**$**
Office Furniture	*25 000*	
less Accumulated Depreciation	*6 125*	*31 125*

Exercise 13.8 Cash Purchase of a Non-Current Asset

a

Explanation	*It is not a transaction*
	as no goods have been exchanged.

b

Explanation	*Showcase World have not taken possession of the cabinets*
	therefore they are not in control of the cabinets or the potential economic
	benefit they represent.

c

General Journal

Date	Details	Debit $	Credit $
May 23	*Cabinets*	*6 000*	
	GST Clearing	*600*	
	Bank		*6 600*
	Cash purchase of new cabinets (Cheque 45)		

d

Explanation	*Tax invoice provided by Carl's cabinets to verify the GST.*
	Delivery docket to verify number of cabinets received.

Ex 13.9 Cost of a Non-Current Asset

a

Explanation	*The licence fee will not provide an economic benefit for the life of the asset*
	– it only lasts for 12 months
	(so it is a current asset rather than a non-current asset).

b

Date	Details	Debit $	Credit $
July 1	*Cash Register*	*10 000*	
	Prepaid Software License	*4 800*	
	GST Clearing	*1 480*	
	Bank		*16 280*
	Paid for new cash register (Chq 233)		

c

Calculation

$$\text{Depreciation} = \frac{\$10\,000 - \$1\,000}{5}$$

$$= \$1\,800 \text{ p.a.}$$

Depreciation of cash register $ *1 800*

d

Calculation

$$\text{Rate} = \frac{\$1\,800}{\$10\,000}$$

$$= 18\%$$

Depreciation rate *18* %

e EILEEN'S LADDERS

Balance Sheet (extract) as at 30 June 2025

Non-Current Assets	**$**	**$**
Cash Register System	*10 000*	
less Accumulated Depreciation	*1 800*	*8 200*

f

Explanation	*Assets decrease $1 800 as accumulate depreciation of Cash register system*
	increases by the amount incurred in the current Period.
	There is no effect on liabilities.
	Owner's equity decreases $1 800 as Depreciation of Cash register system
	expense decreases Net profit by the amount incurred in the current Period.

Exercise 13.10 Cash Purchase of a Non-Current Asset

a

Date	Details	Debit $	Credit $
April 1	*Bank*	*25 000*	
	Loan		*25 000*
	Received loan (source document not given)		

b

Calculation

Delivery van	*$21 000*	
Fitting of shelves	*1 500*	*$22 500*

Cost of delivery van $ *22 500*

c

Explanation *Included in the cost of the van as it is necessary to bring the asset into a condition and location ready for use, and will bring a benefit for the life of the asset because the shelves are fitted in the van.*

d

Date	Details	Debit $	Credit $
April 1	*Delivery Van*	*22 500*	
	Prepaid Service Contract	*1 200*	
	GST Clearing	*2 370*	
	Bank		*26 070*
	Purchase of new delivery van (EFT Trans 3201)		

e **MATT'S MATS**

Cash Flow Statement (extract) for the year ended 30 June 2025

	$	**$**
OPERATING ACTIVITIES		
Prepaid service contract	*(1 200)*	
GST Paid	*(2 370)*	
INVESTING ACTIVITIES		
Delivery van		*(22 500)*

f

Calculation

$$\text{Depreciation} = \frac{\$22\,500 - \$6\,500}{5} \times {}^{3}/_{12}$$

$$= \$3\,200 \text{ p.a.} \times {}^{3}/_{12}$$

Depreciation of van | $ *800*

g **MATT'S MATS**

Balance Sheet (extract) as at 30 June 2025

Current Assets	**$**	**$**
Prepaid Service Contract		*900*

h **MATT'S MATS**

Balance Sheet (extract) as at 30 June 2026

Non-Current Assets	**$**	**$**
Delivery Van	*22 500*	
less Accumulated Depreciation	*4 000*	*18 500*

Ex 13.11 Depreciation for less than one year

a

Accounting assumption	*Period / Accrual basis*
Explanation	*To ensure that the cost incurred in relation to a non-current asset*
	is reported as an expense in each Period in which the asset earns revenue.
	This ensures that profit is calculated accurately.

b

Calculation

Existing off. furniture =	*$8 000 x 10%*
=	*$800*
New off. Furniture =	*$1 200 x 10% x $^{5}/_{12}$*
=	*$50*

Depreciation of office furniture	**$** *850*

c General Journal

Date	Details	Debit $	Credit $
June 30	*Depreciation of Office Furniture*	*850*	
	Acc. Depreciation of Office Furniture		*850*
	Depreciation of office furniture – s/line method		
	(Memo 35)		

d

General Ledger

Depreciation of Office Furniture (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Acc. Dep. of Office Furniture*	*850*	*30/6/25*	*Profit and Loss Summary*	*850*
		850			*850*

Accumulated Depreciation of Office Furniture (–A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Balance*	*2 450*	**1/7/24**	**Balance**	**1 600**
			30/6/25	*Dep. of Office Furniture*	*850*
		2 450			*2 450*
			1/7/25	*Balance*	*2 450*

e **SCRATCH AND DENT DISCOUNTERS**

Balance Sheet (extract) as at 30 June 2025

Non-Current Assets	**$**	**$**
Office Furniture	*9 200*	
less Accumulated Depreciation	*2 450*	*6 750*

Exercise 13.12 Reporting depreciation

a

Explanation	*To ensure profit is calculated accurately*
	by comparing revenues earned and expenses incurred in the current Period.

b/d General Journal

Date	Details	Debit $	Credit $
June 30	*Inventory Loss*	*900*	
	Inventory		*900*
June 30	*Depreciation of Display Equipment*	*7 350*	
	Acc. Depreciation of Display Equipment		*7 350*
June 30	*Advertising*	*2 000*	
	Prepaid Advertising		*2 000*
June 30	*Administrative Expenses*	*1 500*	
	Wages		*1 500*
June 30	*Credit Sales*	*160 000*	
	Profit and Loss Summary		*160 000*
June 30	*Profit and Loss Summary*	*168 250*	
	Administrative Expenses		*12 000*
	Cost of Sales		*80 000*
	Interest Expense		*5 500*
	Rent Expense		*26 000*
	Wages		*34 500*
	Inventory Loss		*900*
	Depreciation of Display Equipment		*7 350*
	Advertising		*2 000*
June 30	*Capital*	*8 250*	
	Profit and Loss Summary		*8 250*
June 30	*Capital*	*16 000*	
	Drawings		*16 000*

c HACK AND SAW

Post-adjustment Trial Balance as at 30 June 2025

Account	Debit $	Credit $
Accounts Receivable	*17 000*	
Accumulated Depreciation of Display Equipment		*19 450*
Administrative Expense	*12 000*	
Bank		*5 300*
Capital – Barr		*68 000*
Cost of Sales	*80 000*	
Display Equipment	*49 000*	
Drawings	*16 000*	
GST Clearing		*400*
Interest Expense	*5 500*	
Inventory	*37 100*	
Loan – DR Finance (repayable $500 per month)		*35 000*
Prepaid Advertising	*800*	
Rent Expense	*26 000*	
Sales		*160 000*
Wages	*34 500*	
Inventory Loss	*900*	
Depreciation of Display Equipment	*7 350*	
Advertising	*2 000*	
Total	***288 150***	***288 150***

e HACK AND SAW

Income Statement for the year ended 30 June 2015

	$	$
Revenue		
Sales		*160 000*
less Cost of Goods Sold		
Cost of Sales		*80 000*
Gross Profit		***80 000***
less Inventory Loss		*900*
Adjusted Gross Profit		***79 100***
less Other Expenses		
Administrative Expenses	*12 000*	
Interest Expense	*5 500*	
Rent Expense	*26 000*	
Wages	*34 500*	
Depreciation of Display Equipment	*7 350*	
Advertising	*2 000*	*87 350*
Net Profit (Loss)		***(8 250)***

f

Explanation	*Hack and Saw has applied an average mark-up of 100%.*
	However, at this sales level Gross Profit is not high enough to cover Other
	Expenses. The sales level or the mark-up need to increase, or Other
	Expenses need to decrease.

g

Action 1	*Reassess staff rostering to reduce Wages*
	Renegotiate the lease/relocate to reduce Rent Expense
Action 2	*Repay some of the loan principal to reduce Interest Expense*
	Investigate what Administrative Expenses includes to find savings

h HACK AND SAW

Balance Sheet as at 30 June 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Accounts Receivable	*17 000*		*Bank (overdraft)*	*5 300*	
Prepaid Advertising	*800*		*GST Clearing*	*400*	
Inventory	*37 100*	*54 900*	*Loan – DR Finance*	*6 000*	*11 700*
Non-Current Assets			***Non-Current Liabilities***		
Display Equipment	*49 000*		*Loan – DR Finance*		*29 000*
less Accumulated Depreciation	*19 450*	*29 550*			
			Owner's Equity		
			Capital – Barr	*68 000*	
			less Net Loss	*8 250*	
				59 750	
			less Drawings	*16 000*	*43 750*
Total Assets		***84 450***	***Total Equities***		***84 450***

i

Discussion	*$16 000 is very low for a year*
	– the owner would need more than this to survive if it is their personal income.
	However,
	The business suffered a Net Loss (of $8 250)
	so Drawings will cause Owner's Equity to decrease.
	The business has a Bank overdraft (of $5 300),
	meaning the Drawings might make it difficult for the business to meet its cash.
	requirements

Exercise 13.13 REPORTING DEPRECIATION

a/d **General Journal**

Date	Details	Debit $	Credit $
Dec. 31	*Inventory*	*700*	
	Inventory Gain		*700*
Dec. 31	*Depreciation of Vehicle*	*2 000*	
	Accumulated Depreciation of Vehicle		*2 000*
Dec. 31	*Wages*	*900*	
	Accrued Wages		*900*
Dec. 31	*Rent Expense*	*12 000*	
	Prepaid Rent Expense		*12 000*
Dec. 31	*Sales*	*120 900*	
	Discount Revenue	*300*	
	Inventory Gain	*700*	
	Sales returns		*900*
	Profit and Loss Summary		*121 000*
Dec. 31	*Profit and Loss Summary*	*101 120*	
	Cost of Sales		*48 000*
	Discount Expense		*820*
	Interest Expense		*1 400*
	Wages		*36 900*
	Depreciation of Vehicle		*2 000*
	Rent Expense		*12 000*
Dec. 31	*Profit and Loss Summary*	*19 880*	
	Capital		*19 880*
Dec. 31	*Capital*	*14 000*	
	Drawings		*14 000*

b NGUYEN SKI GEAR

Post-adjustment Trial Balance as at 31 December 2025

Account	**Debit $**	**Credit $**
Accounts Payable		*18 000*
Accounts Receivable	*16 000*	
Accumulated Depreciation of Vehicle		*10 000*
Bank	*2 400*	
Capital – Nguyen		*32 620*
Cost of Sales	*48 000*	
Discount Expense	*820*	
Discount Revenue		*300*
Drawings	*14 000*	
GST Clearing		*700*
Interest Expense	*1 400*	
Inventory	*24 700*	
Loan – NAB (repayable $9 000 p.a.)		*21 000*
Prepaid Rent Expense	*6 000*	
Sales		*120 900*
Sales returns	*900*	
Vehicle	*40 000*	
Wages	*36 900*	
Inventory Gain		*700*
Depreciation of Vehicle	*2 000*	
Accrued Wages		*900*
Rent Expense	*12 000*	
Total	***204 220***	***204 220***

c

Accounting assumption	*Period*
Explanation	*To transfer revenue and expense amounts to the Profit and Loss*
OR	*Summary account in order to calculate profit for the current period.*
	To reset revenue and expense accounts to zero
	in readiness for the next Period.

e **NGUYEN SKI GEAR**

Income Statement for the six months ending 31 December 2025

	$	$
Revenue		
Sales	*120 900*	
less Sales returns	*900*	*120 000*
less Cost of Goods Sold		
Cost of Sales		*48 000*
Gross Profit		***72 000***
add Inventory Gain		*700*
Adjusted Gross Profit		***72 700***
add Other Revenue		
Discount Revenue		*300*
		73 000
less Other Expenses		
Discount Expense	*820*	
Interest Expense	*1 400*	
Wages	*36 900*	
Depreciation of Vehicle	*2 000*	
Rent Expense	*12 000*	*53 120*
Net Profit (Loss)		***19 880***

f

Explanation	*The firm's reputation must be strong*
	because there is no Advertising expense listed under Other Expenses
	and yet it has still earned $120 000 in Sales revenue.

g NGUYEN SKI GEAR

Balance Sheet as at 31 December 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank	*2 400*		*Accounts Payable*	*18 000*	
Accounts Receivable	*16 000*		*GST Clearing*	*700*	
Prepaid Rent Expense	*6 000*		*Loan – NAB*	*9 000*	
Inventory	*24 700*	*49 100*	*Accrued Wages*	*900*	*28 600*
Non-Current Assets			***Non-Current Liabilities***		
Vehicle	*40 000*		*Loan – NAB*		*12 000*
less Accumulated Depreciation	*10 000*	*30 000*			
			Owner's Equity		
			Capital – Nguyen	*32 620*	
			add Net Profit	*19 880*	
				52 500	
			less Drawings	*14 000*	*38 500*
Total Assets		***79 100***	***Total Equities***		***79 100***

h

Item	*Current assets / Owner's equity / Vehicle / Loan – NAB / Bank*
Justification	*There are enough current assets to cover current liabilities (and non-current*
	liabilities) / Owner's equity has increased / Vehicle is relatively new /
	Bank is positive / Loan – NAB will be repaid in just over two years

Exercise 13.14 Accounting for non-current assets

a/d **General Journal**

Date	Details	Debit $	Credit $
March 1	*Shop Fittings*	*9 400*	
	Capital		*9 400*
	Contribution of shop fittings by owner at agreed		
	value (Memo 6)		
June 30	*Depreciation of Shop Fittings*	*700*	
	Accumulated Depreciation of Shop Fittings		*700*

b

Qualitative characteristic	*Relevance*
Explanation	*When acquired by the business, the shop fittings had an agreed value*
	of $9 400.
	This value is more useful for decision-making by the business.
	($12 000 was paid by the owner – a separate entity to the business).

c

Calculation

$$\text{Depreciation} = \frac{\$9\,400 - \$1\,000}{4} \times {}^{4}/_{12}$$

$$= \$2\,100 \text{ p.a.} \times {}^{4}/_{12}$$

Depreciation of shop fittings $ *700*

e

General Ledger

Shop Fittings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Capital*	*9 400*	*30/6/25*	*Balance*	*9 400*
		9 400			*9 400*
1/7/25	*Balance*	*9 400*			

Depreciation of Shop Fittings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Acc. Dep. of Shop Fittings*	*700*	*30/6/25*	*Profit and Loss Summary*	*700*
		700			*700*

Accumulated Depreciation of Shop Fittings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30/6/25	*Balance*	*700*	*30/6/25*	*Dep. of Shop Fittings*	*700*
		700			*700*
			1/7/25	*Balance*	*700*

f **FUNK FASHIONS**

Balance Sheet (extract) as at 30 June 2026

Non-Current Assets	**$**	**$**
Shop Fittings	*9 400*	
less Accumulated Depreciation	*2 800*	*6 600*

FUNK FASHIONS

Balance Sheet (extract) as at 30 June 2027

Non-Current Assets	**$**	**$**
Shop Fittings	*9 400*	
less Accumulated Depreciation	*4 900*	*4 500*

Exercise 13.15 Accounting for non-current assets

a

Calculation

Van	*$22 000*	
+Suspension	*900*	*$22 900*

Cost of delivery van | **$** *22 900*

b

Suspension	*Included in the cost of the van as it is*
	necessary to bring the asset into a condition and location ready for use,
	and will bring a benefit for the life of the asset.
Insurance	*Not included in the cost of the van,*
	but treated as a current asset (Prepaid Insurance)
	as it will provide a future economic benefit only for the next 12 months.

c **General Journal**

Date	Details	Debit $	Credit $
Oct. 31	*Bank*	*30 470*	
	Loan		*30 470*
Oct. 31	*Van*	*22 900*	
	Prepaid Insurance	*4 800*	
	GST Clearing	*2 770*	
	Bank		*30 470*

d

Accounting assumption	*Period*
Explanation	*Because it will provide a future economic benefit beyond 30 June 2025 /*
	it will not be entirely incurred/consumed by 30 June 2025.
	Its cost must be allocated over its useful life
	to show the expense incurred in each period.

e

Calculation

$$\textit{Depreciation} = \frac{\$22\,900 - \$4\,900}{5} \times \frac{8}{12}$$

$$= \$3\,600 \text{ p.a.} \times \frac{8}{12}$$

Depreciation of van | $ | *2 400*

f

General Journal

Date	Details	Debit $	Credit $
30/6/25	*Depreciation of Van*	*2 400*	
	Accumulated Depreciation of Van		*2 400*

f

Discussion	*Depreciation is based on estimates of Useful life and residual value and*
	therefore not Verifiable by reference to a source document
	which raises questions about whether it is ethical to include it in the reports.
	However,
	Depreciation represents the cost of the asset incurred in the current period
	which may affect decision making about profit.
	Relevance demands that this information is included so that the reports
	contain all information capable of making a difference to decision making.
	Further, the reports must provide a Faithful representation of the firm's
	position and this is only possible if the reports include the cost incurred in
	the current period. Otherwise the reports will not be complete or free from
	error.

g

Explanation	*Yes: straight line depreciation allocates the cost according to time not usage,*
	i.e. the life of the asset is measured in years, not units of use.

Exercise 14.1 Purchase of a non-current asset

a

General Journal

Date	Details	Debit $	Credit $
April 30	*Computer*	*2 650*	
	GST Clearing	*265*	
	Bank		*2 915*
	Purchase of new computer system		
	(Chq 196)		

b

Explanation *It is included as part of the cost of the asset,*
as it is incurred to get the computer ready for use and
has the potential to produce economic benefit over the life of the computer.
Thus, it must be depreciated.

c

Explanation *Assets overall will decrease by $265 as the Computer will increase assets by $2 650 but Bank will decrease by $2 915.*
Liabilities will decrease by $265 as GST Clearing will decrease.
There will be no effect on Owner's equity as there is no revenue earned or expense incurred.

d

Explanation *Does not meet the requirements of a Tax invoice:*
eg. ABN of supplier / amount of GST / words 'Tax invoice'

e

Explanation	*Under the Accrual Basis assumption profit is calculated by*
	comparing revenues earned to expenses incurred in the current period.
	The computer will provide economic benefit over a number of periods
	so the expense will need to be reported as it is incurred.

Exercise 14.2 Purchase of a non-current asset

a

Explanation	*All costs incurred to get the asset into a condition and location ready for use*
	which will bring a benefit for the life of the asset
	(and thus must be depreciated).

b

General Journal

Date	Details	Debit $	Credit $
April 1	*Photocopier*	*22 500*	
	Prepaid technical assistance	*1 200*	
	GST Clearing	*2 370*	
	Bank		*26 070*

c

Explanation	*It is not included as part of the cost of the asset,*
	as although it is incurred to get the photocopier ready for use
	it will not bring a benefit for the life of the asset
	because it only applies for 12 months. (It is in fact a current asset.)

d

MATT'S MOWERS

Balance Sheet (extract) as at 30 April 2025

	$	$
Current Assets		
Prepaid Technical Assistance		*1 100*

Exercise 14.3 Depreciation methods

a

General Journal

Date	Details	Debit $	Credit $
Sept. 30	*Shelving*	*12 000*	
	Sewing machine	*500*	
	GST Clearing	*1 250*	
	Bank		*13 750*
	Cash purchase of new shelving and sewing machine		
	(EFT trans. 3009)		

b

Explanation	*To ensure that profit is calculated accurately*
	under the Accrual basis assumption
	by allocating the cost of a non-current asset as an expense incurred
	in Periods in which it earns revenue.

c

Explanation	*It best reflects the revenue earning pattern of the shelving*
	which will contribute evenly to revenue over its useful life
	(as it has no moving parts), and
	this method allocates depreciation expense evenly over the asset's life.

d

Explanation	*It best reflects the revenue earning pattern of the sewing machine*
	which will contribute more to revenue when it is new and less as it ages
	(as it has moving parts), and this method allocates
	more depreciation expense at the start of the asset's life and less as it ages.

e

Explanation	*The assets will have different useful lives / residual values*
	and will therefore have different depreciation rates.
	The depreciation expense for each asset needs to be reported separately
	to assist decision making (about replacement).

Exercise 14.4 Reducing balance depreciation

a

Assumption	*The asset will contribute more to revenue when it is new and less as it ages.*

b

Calculation

Depreciation = Carrying value x Rate

= $32 000 x 20%

Depreciation of van – year ended 30 June 2025	**$** *6 400*

c **General Journal**

Date	Details	Debit $	Credit $
June 30	*Depreciation of Van*	*6 400*	
	Accumulated Depreciation of Van		*6 400*
	Depreciation of van – 20% reducing balance method		
	(Memo 12)		

d **BENANEE RUBBER**

Balance Sheet (extract) as at 30 June 2025

	$	$
Non-Current Assets		
Van	*32 000*	
less Accumulated Depreciation	*6 400*	*25 600*

e

Calculation

Depreciation = Carrying value x Rate

= $25 600 x 20%

Depreciation of van – year ended 30 June 2026	**$** *5 120*

Exercise 14.5 Reducing balance depreciation

a

Calculation

Depreciation = Carrying value x Rate

= $8 200 x 18%

Depreciation of computers | $ *1 476*

b

General Journal

Date	Details	Debit $	Credit $
June 30	*Depreciation of Computers*	*1 476*	
	Accumulated Depreciation of Computers		*1 476*

c HEAVENLY DESIGNS

Balance Sheet (extract) as at 30 June 2026

	$	$
Non-Current Assets		
Computers	*10 000*	
less Accumulated Depreciation	*3 276*	*6 724*

d

Explanation *The shop fittings will earn revenue evenly over their useful life so the straight-line method should be used to allocate depreciation expense evenly. Reducing balance is suited to assets that earn more revenue when new and allocates more expense at the start of the asset's life and less as it ages.*

e

Qualitative Characteristic	*Comparability*
Explanation	*Changing accounting methods will mean that the reports will*
	not be able to be compared from one period to another:
	it will be unclear whether changes in depreciation expense are the result of
	changes in financial performance or simply changes in accounting methods.

f

Calculation

Yr 1	*Depreciation* =	*Carrying value*	*x*	*Rate*	
	=	*$40 000*	*x*	*18%*	
	=	*$7 200*			
	Acc. dep. =	*$7 200*			
Yr 2	*Depreciation* =	*Carrying value*	*x*	*Rate*	
	=	*$32 800*	*x*	*18%*	
	=	*$5 904*			
	Acc. dep. =	*$13 104*			*Balance Sheet as at 30 June 2025*

Year of purchase	*2023*

Exercise 14.6 Comparing depreciation methods

a

Reason	*The depreciation expense will be the same every year.*

b

Reason	*Comparability only requires the use of the same depreciation method:*
	the calculation of the same depreciation expense is not required.

c

Information	*Type of asset / revenue earning pattern*
Justification	*This will determine how its cost should be allocated as an expense.*

d

Calculation

Depreciation =	*Historical Cost*	*x*	*Rate*
=	*$12 000*	*x*	*10%*
=	*$1 200*		

Depreciation of shop equipment – straight-line method | **$** *1 200*

e

Calculation

Depreciation =	*Carrying value*	*x*	*Rate*
=	*$12 000*	*x*	*15%*
=	*$1 800*		

Depreciation of shop equipment – reducing balance method | **$** *1 800*

f

Explanation	*Higher depreciation expense will mean Net Profit will be $600 lower*
	because the reducing balance method allocates more depreciation expense
	at the start of the asset's life when it is newer.

g

Year	Historical Cost	Straight Line			Reducing Balance			Profit
		Acc. Dep.	Carrying Value	Dep. Expense	Acc. Dep.	Carrying Value	Dep. Expense	Higher (Lower)
2026	*12 000*	*Nil*	*12 000*	*1 200*	*Nil*	*12 000*	*1 800*	*(600)*
2027	*12 000*	*1 200*	*10 800*	*1 200*	*Nil*	*10 200*	*1 530*	*(330)*
2028	*12 000*	*2 400*	*9 600*	*1 200*	*Nil*	*8 670*	*1 301*	*(101)*
2029	*12 000*	*3 600*	*8 400*	*1 200*	*Nil*	*7 369*	*1 105*	*95*
2030	*12 000*	*4 800*	*7 200*	*1 200*	*Nil*	*6 264*	*940*	*260*

Exercise 14.7 Graphing depreciation

a

Photocopiers

Depreciation method	*Straight-line*
Justification	*both lines are straight lines indicating even allocation of depreciation*
	over the life of the asset

Office equipment

Depreciation method	*Reducing balance*
Justification	*both lines are curved indicating a change in allocation of depreciation*
	over the life of the asset

b

Line A

Represents	*Carrying Value (of Photocopiers)*
Justification	*It reduces (by the total of depreciation expense) each year.*

Line B

Represents	*Accumulated Depreciation (of Office Equipment)*
Justification	*It increases (by the total of depreciation expense) each year.*

c

Historical cost of Photocopiers	**$** *10 000*

d

Discussion	*Comparability requires that the same depreciation method be used*
	so that reports can be compared from one Period to the next.
	However
	the reducing balance method allocates more depreciation expense at the start
	of the asset's life than at the end and this would
	would more closely match the revenue earning pattern of the photocopiers
	which are likely to earn more revenue when they are new and less as they age.
	This will ensure a more accurate expense and therefore profit in each period,
	and information which is more useful for decision making (Relevant).

e

Explanation	*No effect:*
	both methods will allocate the same total depreciation expense
	over the life of the asset.

Exercise 14.8 Cash sale of a non-current asset

a **General Journal**

Date	Details	Debit $	Credit $
Aug. 1	*Disposal of Van*	*24 000*	
	Van		*24 000*
	Accumulated Depreciation – Van	*19 000*	
	Disposal of Van		*19 000*
	Bank	*3 000*	
	Disposal of Van		*3 000*
	Loss on Disposal of Van	*2 000*	
	Disposal of Van		*2 000*
	Cash sale of van (Rec. 31)		

b **General Ledger**

Van (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	**Balance**	**24 000**	*Aug. 1*	*Disposal of Van*	*24 000*
		$24 000			*$24 000*

Accumulated Depreciation of Van (–A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	*Disposal of Van*	*19 000*	**Aug. 1**	**Balance**	**19 000**
		19 000			*19 000*

Disposal of Van

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	*Van*	*24 000*	*Aug. 1*	*Acc. Depreciation of Van*	*19 000*
				Bank	*3 000*
				Loss on Disposal of Van	*2 000*
		24 000			*24 000*

b (continued)

General Ledger

Loss on Disposal of Van (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Disposal of Van*	*2 000*			

c

Explanation	*Asset will decrease by $2 000 because Bank will increase by $3 000 but*
	the carrying value of the van will decrease by $5 000 as the van is sold.
	There will be no effect on Liabilities.
	Owner's equity will decrease by $2 000 due to the Loss on Disposal of Van
	being reported as an expense and decreasing Net profit.

d

Explanation	*As an Investing inflow of $3 000 as it is*
	a cash inflow from the sale of a non-current asset.

Exercise 14.9 Cash sale of a non-current asset

a

Calculation

	Depreciation (1/1 – 31/3/25)	*$36 000 x 10% x $^3/_{12}$*	*900*
+	*Acc. depreciation (31/12/24)*		*32 800*
	Acc. depreciation (31/3/25)		*33 700*
	Historical Cost	*$36 000*	
less	*Acc. depreciation*	*33 700*	*2 300*
		Carrying value	**$** *2 300*

b

General Journal

Date	Details	Debit $	Credit $
Mar. 31	*Disposal of Fittings*	*36 000*	
	Fittings		*36 000*
	Accumulated Depreciation of Fittings	*33 700*	
	Disposal of Fittings		*33 700*
	Bank	*2 700*	
	Disposal of Fittings		*2 700*
	Disposal of Fittings	*400*	
	Profit on Disposal of Fittings		*400*
	Cash sale of fittings (Rec. 96)		

c

General Ledger

Fittings (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	**Balance**	**36 000**	*Mar. 31*	*Disposal of Fittings*	*36 000*
		36 000			*36 000*

Accumulated Depreciation of Fittings (–A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 31	*Disposal of Fittings*	*33 700*	**Jan. 1**	**Balance**	**32 800**
			Mar. 31	*Depreciation of Fittings*	*900*
		33 700			*33 700*

Disposal of Fittings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 31	*Fittings*	*36 000*	*Mar. 31*	*Acc. Depreciation of Fittings*	*33 700*
	Profit on Disposal of Fittings	*400*		*Bank*	*2 700*
		36 400			*36 400*

Profit on Disposal of Fittings (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Mar. 31	*Disposal of Fittings*	*400*

d

Reason 1	*Over-depreciated asset*
	(due to understated residual value/useful life)
Reason 2	*Asset was in high demand*
	(due to rarity / better condition than expected)

e TRIFFIC TOYS

Income Statement (extract) for quarter ended 31 March 2025

	$	$
Other revenue		
Profit on Disposal of Fittings		*400*

f

30 April 2025

Calculation				
	Depreciation (31/3 – 30/4/25)	*$36 000 x 10% x 1/12*	*300*	
	Acc. depreciation (30/4/25)		*33 700*	
			Accumulated depreciation	**$** *34 000*
	Historical Cost	*$36 000*		
less	*Acc. depreciation*	*34 000*		
			Carrying value	**$** *2 000*
	Carrying value	*$2 000*		
less	*Proceeds on Disposal*	*2 000*		
			Profit (Loss) on Disposal	**$** *nil*

30 June 2025

Calculation				
	Depreciation (30/4 – 30/6/25)	*$36 000 x 10% x 2/12*	*600*	
	Acc. depreciation (30/4/25)		*34 000*	
			Accumulated depreciation	**$** *34 600*
	Historical Cost	*$36 000*		
less	*Acc. depreciation*	*34 600*		
			Carrying value	**$** *1 400*
	Carrying value	*$1 400*		
less	*Proceeds on Disposal*	*1 200*		
			Profit (Loss) on Disposal	**$** *(200)*

Exercise 14.10 Cash sale of a non-current asset

a

Explanation	*As an Investing Inflow,*
	as it is a cash inflow as a result of the disposal of a non-current asset

b

Calculation

	Proceeds on sale	*$1 900*	
less	*Carrying value*	*3 000*	*($8 000 – $5 000)*

Profit (Loss) on disposal of furniture $ *(1 100)*

c

Explanation	*The carrying value was overstated, due to under-depreciation.*
	This may have been caused by overstating the residual value or useful life,
	or because the asset was not in demand due to damage or obsolescence.

d VICKI'S VINYLS

Income Statement (extract) for October 2025

	$	$
Other Expenses		
Loss on Disposal of Furniture		*1 100*

e **General Journal**

Date	Details	Debit $	Credit $
Oct. 16	*Disposal of Furniture*	*8 000*	
	Furniture		*8 000*
	Accumulated Depreciation of Furniture	*5 000*	
	Disposal of Furniture		*5 000*
	Bank	*1 900*	
	Disposal of Furniture		*1 900*
	Loss on Disposal of Furniture	*1 100*	
	Disposal of Furniture		*1 100*
	Cash sale of furniture (Rec. 33)		

Exercise 14.11 Trade-in of a non-current asset

a

Definition	*When a firm uses the proceeds from the disposal of a non-current asset to*
	reduce the amount payable for the purchase of a new non-current asset

b

General Journal

Date	Details	Debit $	Credit $
May 1	*Disposal of Van*	*30 000*	
	Van		*30 000*
	Accumulated Depreciation of Van	*20 000*	
	Disposal of Van		*20 000*
	Van	*7 000*	
	Disposal of Van		*7 000*
	Loss on Disposal of Van	*3 000*	
	Disposal of Van		*3 000*
	Van	*33 000*	
	GST Clearing	*4 000*	
	Bank		*37 000*
	Trade-in of van on cash purchase of new van		
	(EFT trans. 2119)		

c General Ledger

Van (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	**Balance**	**30 000**	*May 1*	*Disposal of Van*	*30 000*
	Disposal of Van	*7 000*			
	Bank	*37 000*			

Accumulated Depreciation of Van (–A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Disposal of Van*	*20 000*	**May 1**	**Balance**	**20 000**

Disposal of Van

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Van*	*30 000*	*May 1*	*Acc. Depreciation of Van*	*20 000*
				Van	*7 000*
				Loss on Disposal of Van	*3 000*
		$30 000			*$30 000*

Loss on Disposal of Van

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May 1	*Disposal of Van*	*3 000*			

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			May 1	*Van / GST Clearing*	*37 000*

d

Definition	*When insufficient depreciation is allocated over the life of the asset*
	(meaning its carrying value is overstated).

e

Cause 1	*Overestimation of useful life*
Cause 2	*Overestimation of residual value*

Exercise 14.12 Trade-in of a non-current asset

a **General Journal**

Date	Details	Debit $	Credit $
June 1	*Disposal of Cash register*	*4 000*	
	Cash register		*4 000*
	Accumulated Depreciation of Cash register	*3 100*	
	Disposal of Cash register		*3 100*
	Cash register	*500*	
	Disposal of Cash register		*500*
	Loss on Disposal of Cash register	*400*	
	Disposal of Cash register		*400*
	Cash register	*5 500*	
	GST Clearing	*600*	
	Bank		*6 100*
	Trade-in of cash register on cash purchase of new cash		
	register (Cheque 113)		

b

General Ledger

Cash Register

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	**Balance**	**4 000**	*June 1*	*Disposal of Cash Register*	*4 000*
	Disposal of Cash Register	*500*			
	Bank	*5 500*			

Disposal of Cash Register

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 1	*Cash Register*	*4 000*	*June 1*	*Acc. Dep. of Cash register*	*3 100*
				Cash register	*500*
				Loss on Disposal of Cash register	*400*
		$4 000			*$4 000*

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			June 1	*Cash Register / GST Clearing*	*6 100*

c

Explanation	*Not reported:*
	only the overall Loss on Disposal of Cash Register is reported
	in the Income Statement (under Other Expenses).

d

Explanation	*As an Investing outflow of $6 100*
	as it is a cash outflow related to the purchase of a non-current asset.

Exercise 14.13 Disposal of a non-current asset and financial reports

a **General Journal**

Date	Details	Debit $	Credit $
June 30	*Disposal of Fittings*	*5 000*	
	Fittings		*5 000*
	Acc. Depreciation of Fittings	*3 000*	
	Disposal of Fittings		*3 000*
	Fittings	*1 200*	
	Disposal of Fittings		*1 200*
	Loss on Disposal of Fittings	*800*	
	Disposal of Fittings		*800*
	Fittings	*7 800*	
	GST Clearing	*900*	
	Bank		*8 700*
June 30	*Depreciation of Fittings*	*300*	
	Accumulated Depreciation of Fittings		*300*
June 30	*Inventory Loss*	*170*	
	Inventory		*170*
June 30	*Interest Expense*	*140*	
	Accrued Interest Expense		*140*
June 30	*Rent Expense*	*600*	
	Prepaid Rent Expense		*600*
June 30	*Profit and Loss Summary*	*23 590*	
	Advertising		*1 000*
	Cost of Sales		*14 820*
	Discount Expense		*280*
	Inventory Write-down		*230*
	Wages		*5 250*
	Depreciation of Fittings		*300*
	Loss on Disposal of Fittings		*800*
	Inventory Loss		*170*
	Interest Expense		*140*
	Rent Expense		*600*

b KYABRAM KITES

Adjusted Trial Balance as at 30 June 2025

Account	**Debit $**	**Credit $**
Accounts Payable		*8 600*
Accounts Receivable	*12 750*	
Accumulated Depreciation of Fittings *(24 000 + 300 depn – 3 000)*		*21 300*
Advertising	*1 000*	
Bank		*9 090*
Capital – Darling		*34 720*
Cost of sales	*14 820*	
Discount expense	*280*	
Discount revenue		*130*
Drawings	*3 200*	
Fittings *(60 000 – 5 000 disposal + 9 000 purchase)*	*64 000*	
GST Clearing *(1 060 – 900 on new fittings)*		*160*
Inventory	*26 500*	
Inventory write-down	*230*	
Loan – Northern Bank (repayable $500 per month)		*24 000*
Prepaid Rent Expense	*1 200*	
Sales		*33 400*
Sales returns	*300*	
Wages	*5 250*	
Depreciation of Fittings	*300*	
Loss on Disposal of Fittings	*800*	
Inventory loss	*170*	
Interest expense	*140*	
Accrued Interest Expense		*140*
Rent expense	*600*	
Total	***131 540***	***131 540***

d KYABRAM KITES

Income Statement for June 2015

	$	$
Revenue		
Sales	*33 400*	
less Sales returns	*300*	*33 100*
less Cost of Goods Sold		
Cost of sales		*14 820*
Gross Profit		***18 280***
less Inventory loss	*170*	
less Inventory write-down	*230*	*400*
Adjusted Gross Profit		***17 880***
add Other Revenue		
Discount Revenue		*130*
		18 010
less Other Expenses		
Advertising	*1 000*	
Discount expense	*280*	
Wages	*5 250*	
Depreciation of Fittings	*300*	
Loss on Disposal of Fittings	*800*	
Interest expense	*140*	
Rent expense	*600*	*8 370*
Net Profit		***9 640***

e

Action 1	*Physical security measures (e.g. locks/cameras)*
	Rotation of inventory / Reduce level of inventory on hand
Action 2	*More careful checking of deliveries*
	*Strategies to increase sales: advertising, inventory mix (**not** selling prices)*

f

Straight-line method: 10%

Calculation

Depreciation = *$60 000 x 10% x $^{1}/_{12}$*
= *$500*

Depreciation expense	$ *500*
Profit: Higher (Lower)	*Lower*

Straight-line method: 7%

Calculation

Depreciation = *$60 000 x 7% x $^{1}/_{12}$*
= *$350*

Depreciation expense	$ *350*
Profit: Higher (Lower)	*Lower*

g

Explanation *Because at both 7% and 10% Depreciation expense is higher using the straight line method so profit will be lower and the firm will not look more profitable.*

h

Explanation *Because he is suggesting choosing a depreciation method based on what makes the firm look profitable. This is misleading to users of the reports. (The depreciation method should be chosen based on the revenue earning pattern of the asset.)*

i

KYABRAM KITES

Balance Sheet as at 30 June 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Accounts Receivable	*12 750*		*Bank*	*9 090*	
Prepaid Rent Expense	*1 200*		*Accounts Payable*	*8 600*	
Inventory	*26 500*	*40 450*	*GST Clearing*	*160*	
			Loan – Northern Bank	*6 000*	
Non-Current Assets			*Accrued Interest Expense*	*140*	*23 990*
Fittings	*64 000*				
– Accumulated Depreciation	*21 300*	*42 700*	***Non-Current Liabilities***		
			Loan – Northern Bank		*18 000*
			Owner's Equity		
			Capital – Darling	*34 720*	
			add Net Profit	*9 640*	
				44 360	
			less Drawings	*3 200*	*41 160*
Total Assets		***83 150***	***Total Equities***		***83 150***

Exercise 15.1 Bad and doubtful debts

a

Definition	*a debt arising from credit sales in the current Period) that is estimated may*
	not be collectable at some point in the future

b

Calculation

D. debts = Estimated rate x Net credit sales

= 3% x $130 000

Doubtful debts | **$** *3 900*

c

General Journal

Date	Details	Debit $	Credit $
Aug. 31	Bad debts	3 900	
	Allowance for doubtful debts		3 900
	Creation of allowance for doubtful debts – 3% of Net		
	credit sales (Memo 27)		

d

Explanation	*It recognises in the current Period the (probable) expense incurred*
	as a result of sales made in that Period.
	This means profit can be calculated accurately by matching revenue earned
	against expenses incurred in the current Period.

e **General Ledger**

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 1	*Balance*	*42 000*			

Allowance for doubtful debts (-A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Aug. 31	*Bad debts*	*3 900*

Bad debts (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Allowance for doubtful debts*	*3 900*			

f **Flicker Films**

Balance Sheet (extract) as at 30 June 2025

	$	$
Current Assets		
Accounts Receivable	*42 000*	
less Allowance for doubtful debts	*3 900*	*38 100*

Exercise 15.2 Bad and doubtful debts

a

	Source document
March 8	*Invoice*
March 15	*Credit note*

b

Calculation

D. debts = Estimated rate x Net credit sales

= 5% x ($140 000 - $8 000 + $60 000)

= $9 600

Doubtful debts | **$** *9 600*

c

General Journal

Date	Details	Debit $	Credit $
March 31	*Bad debts*	*9 600*	
	Allowance for doubtful debts		*9 600*
	Creation of allowance for doubtful debts – 5% of Net		
	credit sales (Memo 96)		

d

General Ledger

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 1	*Balance*	*85 000*			

Allowance for doubtful debts (-A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Mar. 31	*Bad debts*	*9 600*

Bad debts (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 31	*Allowance for doubtful debts*	*9 600*			

e

	Increase / Decrease / No effect	Amount $
Assets	*Decrease (Increase Allowance for doubtful debts)*	*9 600*
Liabilities	*No effect*	
Owner's Equity	*Decrease (Bad debts expense decrease Net profit)*	*9 600*

f

Explanation	*Recognising Bad debts expense in the Income Statement*
	and Allowance for doubtful debts in the Balance Sheet means the reports
	include all information capable of making a difference to decision making.
	It also means the Balance Sheet provides a Faithful representation of the real
	world value of Accounts Receivable as it the information is complete
	(although it is an estimate and thus not neutral).

g

Reason 1	*There are no receipts from Accounts Receivable during March 2025*
	Lack of cash received from Accounts Receivable will reduce liquidity
Reason 2	*Doubtful debts is 5% of net credit sales*
	Bad debts expense will reduce profit

Exercise 15.3 Writing off a bad debt

a

Definition	*a debt that is deemed to be uncollectable / irrecoverable*
	possibly because the Account Receivable has been declared bankrupt

b

General Journal

Date	Details	Debit $	Credit $
Sept. 14	*Allowance for doubtful debts*	*1 500*	
	GST Clearing	*150*	
	Account Receivable – Chute		*1 650*
	Debt written off as uncollectable due to absence of		
	Account Receivable – Chute (Memo 43)		

c

Explanation	*It does not affect profit in the current Period*
	as under the Accrual basis it was incurred in an earlier Period
	when the credit sale was made
	(but not confirmed until the current Period).

d

General Ledger

Account Receivable – Chute (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 1	*Balance*	*1 650*	*Sept. 14*	*Allowance for doubtful debts /*	*1 650*
				GST Clearing	

Allowance for doubtful debts (-A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 14	*Account Receivable – Chute*	*1 500*	*Sept. 1*	*Balance*	*2 300*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Sept. 14	*Account Receivable – Chute*	*150*	*Sept. 1*	*Balance*	*2 000*

e

Action 1	*Credit checks*
	Prompt invoicing / Offering settlement discounts
Action 2	*Reminder calls*
	Threats of legal action

Exercise 15.4 Writing off a bad debt

a **General Journal**

Date	Details	Debit $	Credit $
March 25	*Bank*	*440*	
	Accounts Receivable		*440*
	Received cash from Account Receivable – Solvent		
	(Receipt 31)		
March 25	*Allowance for doubtful debts*	*1 600*	
	GST Clearing	*160*	
	Accounts Receivable		*1 760*
	Debt written off as uncollectable due to bankruptcy		
	of Account Receivable – Solvent (Memo 52)		

b **General Ledger**

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 1	*Balance*	*19 500*	*Mar. 25*	*Bank*	*440*
				Allowance for doubtful debts /	*1 760*
				GST Clearing	

c

Explanation	*Assets decreases $160 because Accounts Receivable decreases by $2 200*
	(for the cash received and the amount written off),
	but Allowance for doubtful debts (-A) decreases by $1 600 and
	Bank increases $440 (for the cash received).
	Liabilities (GST Clearing) decreases $160 as the GST will not be collected
	from the Accounts Receivable and thus is no longer owed to the ATO.
	There is no effect on Owner's equity
	(as there are no revenues earned or expenses incurred).

d

Discussion	*The letter indicated the Account Receivable would be declaring bankruptcy,*
	but this has not been confirmed meaning the amount written off may not be
	Verifiable yet.
	However, given the strong indication it is ethical to recognise this decrease in
	assets as being Relevant in that it is capable of affecting decision making
	(about the value of the firm's assets).
	Writing off the bad debt also ensures that the Balance Sheet provides a
	Faithful representation of the value of the firm's Accounts Receivable as it
	is complete.

Exercise 15.5 Bad debt and doubtful debts: subsequent periods

a/c **General Journal**

Date	Details	Debit $	Credit $
Dec. 12	*Allowance for doubtful debts*	*900*	
	GST Clearing	*90*	
	Accounts Receivable		*990*
	Debt written off as uncollectable due to bankruptcy		
	of Account Receivable – Springs (Memo 201)		
Dec. 31	*Bad debts*	*6 200*	
	Allowance for doubtful debts		*6 200*

b

Calculation

D. debts = Estimated rate x Net credit sales

= 5% x ($150 000 – $12 000)

= $6 900

Doubtful debts **$** *6 900*

d

Explanation *The Allowance for doubtful debts account had an existing balance of $700 meaning less had to be recorded as Bad debts expense.*

e

General Ledger

Accounts Receivable (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 1	*Balance*	*60 000*	*Dec.*	*Bank*	*145 000*
	Sales / GST Clearing	*165 000*		*Sales returns / GST Clearing*	*13 200*
			12	*Accounts Receivable /*	*990*
				GST Clearing	
			31	*Balance*	*65 810*
		225 000			*225 000*
Jan. 1	*Balance*	*65 810*			

Allowance for doubtful debts (-A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 12	*Accounts Receivable*	*900*	*Dec.1*	*Balance*	*1 600*
31	*Balance*	*6 900*	*31*	*Bad debts*	*6 200*
		7 800			*7 800*
			Jan. 1	*Balance*	*6 900*

Bad debts (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Allowance for doubtful debts*	*6 200*	*Dec. 31*	*Profit and Loss Summary*	*6 200*
		6 200			*6 200*

f Wishart Wells

Balance Sheet (extract) as at 31 December 2025

	$	$
Current Assets		
Accounts Receivable	*65 810*	
less Allowance for doubtful debts	*6 900*	*58 910*

Exercise 15.6 Bad debt and doubtful debts

a **General Journal**

Date	Details	Debit $	Credit $
Mar. 2	*Account Receivable – Tusche*	*880*	
	Sales		*800*
	GST Clearing		*80*
	Cost of sales	*500*	
	Inventory		*500*
Mar. 29	*Bank*	*605*	
	Account Receivable – Tusche		*605*
Mar. 29	*Allowance for doubtful debts*	*1 650*	
	GST Clearing	*165*	
	Account Receivable – Tusche		*1 815*
Mar. 31	*Bad debts*	*2 450*	
	Allowance for doubtful debts		*2 450*

b

	Overstated / Understated / No effect	Amount $
Assets	*Understated (U/s Accounts Receivable $880, O/s Inventory $500)*	*380*
Liabilities	*Understated (GST Clearing)*	*80*
Owner's Equity	*Understated (Net profit)*	*300*

c

Explanation	*Relevance requires that all information that is capable of affecting decision making be included in the reports.*
	This information may affect decisions based on the valuation of assets (Accounts Receivable).

d

General Ledger

Account Receivable – Elsa Tours (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 1	*Balance*	*32 000*	*Mar.*	*Bank / discount revenue*	*58 000*
	Sales / GST Clearing	*69 520*		*Sales returns / GST Clearing*	*4 400*
			31	*Balance*	*39 120*
		101 520			*101 520*
Apr. 1	*Balance*	*39 120*			

Account Receivable – Tusche (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 1	*Balance*	*1 540*	*Mar. 29*	*Bank*	*605*
2	*Sales / GST Clearing*	*880*		*Allowance for doubtful debts /*	*1 815*
				GST Clearing	
		2 420			*2 420*

Allowance for doubtful debts (-A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 29	*Accounts Receivable*	*1 650*	*Mar. 1*	*Balance*	*1 600*
31	*Balance*	*2 400*	*31*	*Bad debts*	*2 450*
		4 050			*4 050*
			Apr. 1	*Balance*	*2 400*

Bad debts (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Allowance for doubtful debts*	*2 450*	*Dec. 31*	*Profit and Loss Summary*	*2 450*
		2 450			*2 450*

e Nordic Supplies

Balance Sheet (extract) as at 31 March 2025

	$	$
Current Assets		
Account Receivable – Elsa Tours	*39 120*	
less Allowance for doubtful debts	*2 400*	*36 720*

f

Correct statement	*Bad debts are leaving him with less cash*
Justification	*Bad debts mean less cash is collected from Accounts Receivable*

g

Incorrect statement	*Bad debts are reducing his revenue*
Justification	*Bad debts are not incurred at point of sale (when revenue is earned)*
	but sometime later when the Account Receivable cannot pay

h

Discussion	*Continuing to sell to Tusche could mean further sales and therefore more*
	profit.
	However, the insolvency firm representing Tusche has indicated that the
	current remaining debt is irrecoverable.
	To continue making sales would be to risk further bad debts which will
	decrease profit and also reduce cash received.

Exercise 15.7 Accounting reports

a

Explanation	*To calculate profit accurately according to the Accrual basis assumption*
	by comparing revenues earned against expenses incurred
	in the current Period.

b

General Journal

Date	Details	Debit $	Credit $
Oct. 31	*Inventory loss*	*900*	
	Inventory		*900*
31	*Rent expense*	*1 500*	
	Prepaid rent expense		*1 500*
31	*Advertising expense*	*410*	
	Accrued advertising		*410*
31	*Depreciation of van*	*300*	
	Accumulated Depreciation of Van		*300*
31	*Depreciation of Fixtures and fittings*	*625*	
	Accumulated Depreciation of Fixtures and fittings		*625*
31	*Allowance for doubtful debts*	*1 200*	
	GST Clearing	*120*	
	Account Receivable – Eagles SC		*1 320*
31	*Bad debts*	*1 045*	
	Allowance for doubtful debts		*1 045*
31	*Insurance*	*1 500*	
	GST Clearing	*150*	
	Wages		*1 650*

c

Omni Sports

Post-adjustment Trial Balance as at 31 October 2025

Account	**Debit $**	**Credit $**
Account Receivable – Eagles SC	*~~1 320~~*	
Account Receivable – Western FC	*27 500*	
Accounts Payable		*46 000*
Accumulated depreciation of Fixtures and fittings		*9 625*
Accumulated depreciation of Van		*25 300*
Advertising	*2 910*	
Allowance for doubtful debts		*2 145*
Bank		*5 100*
Buying expenses	*1 600*	
Capital		*33 830*
Cost of sales	*35 000*	
Discount expense	*3 100*	
Discount revenue		*1 790*
Drawings	*4 500*	
Fixtures and fittings	*59 000*	
GST Clearing		*3 630*
Insurance	*1 600*	
Interest expense	*400*	
Inventory	*64 100*	
Loan – QZ Bank (repayable $1 200 per month)		*55 000*
Prepaid rent expense	*10 500*	
Sales		*75 000*
Sales returns	*3 500*	
Van	*36 000*	
Wages	*3 750*	
Inventory loss	*900*	
Rent expense	*1 500*	
Accrued advertising		*410*
Depreciation of Van	*300*	
Depreciation of Fixtures and fittings	*625*	

Bad debts	*1 045*	
Totals	***257 830***	***257 830***

d

OMNI SPORTS

Income Statement for September 2025

	$	**$**
Sales	*75 000*	
Sales returns	*3 500*	*71 500*
less Cost of Goods Sold		
Cost of sales	*35 000*	
Buying expenses	*1 600*	*36 600*
Gross Profit		***34 900***
less Inventory loss		*900*
Adjusted Gross Profit		***34 000***
add Other revenue		
Discount revenue		*1 790*
		35 790
less Other expenses		
Advertising	*2 910*	
Discount expense	*3 100*	
Insurance	*1 600*	
Interest expense	*400*	
Wages	*3 750*	
Rent expense	*1 500*	
Depreciation of Van	*300*	
Depreciation of Fixtures and fittings	*625*	
Bad debts	*1 045*	*15 230*
Net profit (loss)		***20 560***

e

Expense 1	*Rent expense / Depreciation (of Van or F&F) / Bad debts /*
Expense 2	*Advertising*
Explanation	*Balance day adjustments for expenses like rent / bad debts*
	increase expenses and decrease profit,

	It is ethical to disclose these expenses as users rely on this information
	to make decisions.

f

Action 1	*Lower CP of inventory by . . .*
	cheaper supplier, cheaper buying expenses
Action 2	*Decrease Inventory loss by . . .*
	physical safeguards, rotating inventory

g

Discussion	*Wages expense for October 2025 ($3 750) equates to $45 000 per year which*
	is below average earnings and might indicate a need for a pay rise for ethical
	(social) reasons.
	Financially, the business is on track to make a yearly profit of more than
	$240 000 indicating it can be afforded
	This would be even more so if there is more than one employee.
	However, there is no information about the number of hours worked by the
	employees so it is hard to determine their hourly rate.
	Further, the business would need to consider the wages paid by similar
	businesses and the quality of the work performed by its staff: it may wish to
	pay more to retain loyal and competent staff (or not!).
	The business would also need to consider its previous financial performance
	to see if this result is 'normal'
	and its budgeted performance to see if this level of profit is expected to
	continue into the future.

h

OMNI SPORTS

Balance Sheet as at 31 October 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Account Receivable – Western FC	*27 500*		*Bank*	*5 100*	
less Allowance for doubtful debts	*(2 145)*		*GST Clearing*	*3 630*	
Inventory	*64 100*		*Accounts Payable*	*46 000*	
Prepaid rent expense	*10 500*	*99 955*	*Accrued Advertising*	*410*	
			Loan – QZ Bank	*1 200*	*56 340*
Non-Current Assets					
Fixtures and fittings	*59 000*		***Non-Current Liabilities***		
– Accumulated Depreciation	*(9 625)*		*Loan – QZ Bank*		*53 800*
Van	*36 000*				
– Accumulated Depreciation	*(25 300)*	*60 075*	***Owner's Equity***		
			Capital	*33 830*	
			add Net Profit	*20 560*	
				54 390	
			less Drawings	*4 500*	*49 890*
Total Assets		***160 030***	***Total Equities***		***160 030***

i

Discussion	*Bank is in overdraft which means debt owed to bank*
	Allowance for doubtful debts almost 10% of Accounts Receivable balance
	However,
	Increase in Owner's equity: healthy profit (> Drawings)
	Current asset > Current liability (good Working Capital Ratio / liquidity)
	Safe - 66% of assets financed by debt
	Non-current assets have plenty of useful life left
	Accounts Payable < Inventory on hand

Exercise 16.1 Unearned revenue

a **General Journal**

Date	Details	Debit $	Credit $
Mar. 1	*Bank*	*9 900*	
	Unearned Rent revenue		*9000*
	GST Clearing		*900*
	6 months' rent revenue received in advance		
	(Receipt 54)		

b

Explanation	*Only part (4/6 months) of the rent received is earned in the year ended 30*
	June 2025 and under the Accrual basis assumption only this amount should
	be recognised as revenue for the Period.
	(The remaining 2 months remain unearned at the end of the Period).

c

Calculation

$$\frac{\$9\,000}{6 \text{ months}} \times 4 \text{ months' earned (March–June inclusive)}$$

$$= \$1\,500 \times 4$$

Rent revenue | $ *6 000*

d **General Journal**

Date	Details	Debit $	Credit $
June 30	*Unearned Rent revenue*	*6 000*	
	Rent revenue		*6 000*
	4 months' (March – June 2025) rent revenue earned		
	(Memo 44)		

e

Explanation	*There is no effect on assets (the cash was received on 1 March 2025).*
	Liabilities (Unearned Rent revenue) decreases $6 000
	as the obligation is settled by the provision of the premises.
	Owner's equity increases ($ 6000)
	as the Rent revenue earned increases profit.

f

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Mar. 1	**Balance**	**6 000**			
	Unearned Rent revenue /	*9 900*			
	GST Clearing				

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Mar. 1	**Balance**	**1 500**
				Bank	*900*

Unearned Rent revenue (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Rent revenue*	*6 000*	*Mar. 1*	*Bank*	*9 000*
		6 000			*6 000*

Rent revenue (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Profit and Loss Summary*	*6 000*	*June 30*	*Unearned Rent revenue*	*6 000*
		6 000			*6 000*

Exercise 16.2 Cash sale involving a deposit

a **General Journal**

Date	Details	Debit $	Credit $
Jan. 16	*Bank*	*400*	
	Unearned Sales		*400*
	Deposit received in advance on bulk order		
	(Receipt 84)		

b

Explanation	*Under Current Liabilities as Unearned Sales $400,*
	as it is a present obligation (to provide the goods to the customer)
	that is expected to be settled sometime in the next 12 months
	when the goods are provided / as the goods are owed to the customer.

c **General Journal**

Date	Details	Debit $	Credit $
Feb. 27	*Bank*	*5 100*	
	Unearned Sales	*400*	
	Sales		*5 000*
	GST Clearing		*500*
	Cost of sales	*2 300*	
	Inventory		*2 300*
	Cash sale of inventory following deposit		
	(Receipt 92)		

d

Reason 1	*The amount in the Bank account includes the GST received on the sale*
Reason 2	*The amount in the Bank account (on Feb. 27) does not include the deposit*

e

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 1	**Balance**	*** 1 700**			
Feb. 27	*Sales / GST Clearing*	*5 100*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 1	**Balance**	**57 800**	*Feb. 27*	*Cost of sales*	*2 300*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Feb. 1	**Balance**	**750**
			Feb. 27	*Bank*	*500*

Unearned Sales (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 27	*Sales*	*400*	**Feb. 1**	**Balance**	*400*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Profit and Loss Summary*	*5 000*	*Feb. 27*	*Bank / Unearned Sales*	*5 000*
		5 000			*5 000*

Cost of sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Feb. 27	*Inventory*	*2 300*	*June 30*	*Profit and Loss Summary*	*2 300*
		2 300			*2 300*

* *Includes the $400 deposit received on 16 January 2025 (the previous Period).*

Exercise 16.3 Credit Sale involving a deposit

a

Explanation	*Assets (Bank) increases by $350 because the cash deposit has been*
	received.
	Liabilities (Unearned Sales) increases by $350 because there is a present
	obligation to provide the goods to the customer at some point in the future.
	There is no effect on Owner's equity as no revenue has been earned yet.

b

Qualitative Characteristic	*Relevance*
Explanation	*As at 31 December 2024 the goods have not been provided to the customer*
	so the revenue has not been earned in December 2024.
	It adversely affects decision making – about profit for December 2024 – if
	this deposit is recognised as revenue in the wrong Period.

c **General Journal**

Date	Details	Debit $	Credit $
Jan. 4	*Account Receivable – Hartwells*	*1 190*	
	Unearned Sales	*350*	
	Sales		*1 400*
	GST Clearing		*140*
	Cost of sales	*920*	
	Inventory		*920*
	Credit sale of washing machine to Hartwells		
	following deposit (Invoice 44)		

d

	Increase / Decrease / No effect	**Amount $**
Assets	*Increase (Increase Accounts Receivable $1 190, decrease Inventory $920)*	*270*
Liabilities	*Decrease (Decrease Unearned Sales $350, increase GST Clearing $140)*	*210*
Owner's Equity	*Increase (Sales $1 400 less Cost of Sales $920 = Net Profit)*	*480*

e

General Ledger

Account Receivable – Hartwells (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	**Balance**	**25 600**			
4	*Sales / GST Clearing*	*1 190*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	**Balance**	**75 900**	*Jan. 4*	*Cost of sales*	*920*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Jan. 1	**Balance**	**1 900**
			4	*Account Receivable – Hartwells*	*140*

Unearned Sales (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 4	*Sales*	*350*	**Jan. 1**	**Balance**	*350*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Jan. 4	*Account Receivable – Hartwells*	*1 400*
				/ Unearned Sales	

Cost of sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 4	*Inventory*	*920*			

Exercise 16.4 Credit sale involving a deposit

a

Calculation

Deposit =	*30 consoles @ $275 each*	*x*	*20% deposit*	
=	*$8 250*	*x*	*20%*	
=	*$1 650*			
			Cash received	**$** *1 650*

b

Explanation *The revenue has not yet been earned*
so it would be misleading the users of the report to include it as revenue
and might distort their decision making.

c

Explanation *Because this is simply a deposit (to guarantee the sale);*
GST is recognised at point of sale
when the goods are provided to the customer

d

General Journal

Date	Details	Debit $	Credit $
Nov. 13	*Bank*	*1 650*	
	Unearned Sales		*1 650*
Nov. 26	*Account Receivable – Spot On*	*6 600*	
	Unearned Sales	*1 650*	
	Sales		*7 500*
	GST Clearing		*750*
	Cost of sales	*3 600*	
	Inventory		*3 600*

e

General Ledger

Bank (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	**Balance**	**8 500**			
13	*Unearned Sales*	*1 650*			

Account Receivable – Spot On (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	**Balance**	**16 000**			
26	*Sales / GST Clearing*	*6 600*			

Inventory (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 1	**Balance**	**30 500**	*Nov. 26*	*Cost of sales*	*3 600*

GST Clearing (A/L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Nov. 1	**Balance**	**2 300**
			13	*Account Receivable – Spot On*	*750*

Unearned Sales (L)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 26	*Sales*	*1 650*	*Nov. 13*	*Bank*	*1 650*

Sales (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			Nov. 26	*Account Receivable – Spot On /*	*7 500*
				Unearned Sales	

Cost of sales (E)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Nov. 26	*Inventory*	*3 600*			

f

	Overstated / Understated / No effect	Amount $
Assets	*Understated (u/s Accounts Receivable $6 600, o/s Inventory $3 600)*	*3 000*
Liabilities	*Overstated (o/s Unearned Sales $1 650, u/s GST Clearing $750)*	*900*
Owner's Equity	*Understated (u/s Sales $7 500 less Cost of Sales $3 600 = Net profit)*	*3 900*

Exercise 16.5 Accrued revenue

a

Justification	*The $700 interest was earned in the current Period (August 2025).*

b

General Journal

Date	Details	Debit $	Credit $
Aug. 31	*Accrued Interest Revenue*	*700*	
	Interest Revenue		*700*
	Interest revenue earned but not yet received		
	(Memo 95)		

c

Explanation	*Assets increase by $700 as Accrued Interest revenue will be received at some*
	point in the future.
	There is no effect on liabilities.
	Owner's equity increases by $700 as the revenue is earned
	and thus increases profit.

d

General Ledger

Interest revenue (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Profit and Loss Summary*	*6 700*	*Aug. 31*	*Bank*	*6 000*
				Accrued Interest revenue	*700*
		6 700			*6 700*

Accrued Interest revenue (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Aug. 31	*Interest revenue*	*700*	*Aug. 31*	*Balance*	*700*
		700			*700*
Sept. 1	*Balance*				

e

Explanation	*As a current asset worth $7 00*
	as it is an economic resource controlled by the entity
	and has the potential to produce future economic benefits
	sometime in the next 12 months when the interest is received.

Exercise 16.6 Accrued revenue

a

Calculation

Interest = *$50 000 x 12%* *x $^{3}/_{12}$ instalments received (May)*
= *$6 000* *x $^{3}/_{12}$*
= *$1 500*

Interest revenue received	**$** *1 500*

b

Calculation

Accrued interest = *$6 000* *x $^{1}/_{12}$ months owing (June)*
= *$500*

Accrued interest revenue	**$** *500*

c **General Journal**

Date	Details	Debit $	Credit $
Aug. 31	*Accrued Interest Revenue*	*500*	
	Interest Revenue		*700*

d

General Ledger

Interest revenue (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Profit and Loss Summary*	*2 000*	*May 31*	*Bank*	*1 500*
			June 30	*Accrued Interest revenue*	*500*
		2 000			*2 000*

Accrued Interest revenue (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
June 30	*Interest Revenue*	*500*	*June 30*	*Balance*	*500*
		500			*500*
July 1	*Balance*	*500*			

e

General Journal

Date	Details	Debit $	Credit $
Aug. 31	*Bank*	*1 500*	
	Accrued Interest Revenue		*500*
	Interest Revenue		*1 000*
	Received interest for June – August 2025		
	(Bank Statement)		

f

Explanation	*$500 was earned in the previous Period (June) and*
	represents a decrease in the current asset – Accrued Interest revenue.
	Only $1 000 is earned in the current Period (August).

Exercise 16.7 Accrued revenue

a

Calculation

	Commission revenue received	*$8 000*
+	*Accrued commission revenue*	*4 000*
	Commission revenue earned	*$12 000*

Commission revenue earned | **$** *12 000*

b

General Journal

Date	Details	Debit $	Credit $
Apr. 30	*Accrued Commission revenue*	*4 000*	
	Commission revenue		*4 000*
	Commission revenue for April 2025 earned but not yet		
	received (Memo 54)		

c

Explanation *Commission revenue would be understated by $700 because it would not include the revenue earned but not yet received so Net profit would also be understated*

d

General Journal

Date	Details	Debit $	Credit $
May 3	*Bank*	*6 600*	
	Accrued Commission revenue		*4 000*
	Commission revenue		*2 000*
	GST Clearing		*600*
	Received Commission revenue for April and May 2025		
	(Receipt 31)		

e

	Increase/Decrease/No effect	**Amount $**
Assets	*Increase (Increase Bank $6 600, decrease Accrued Comm. Rev. $4 000)*	*2 600*
Liabilities	*Increase (GST Clearing)*	*600*
Owner's Equity	*Increase (Commission Revenue increases Net Profit)*	*2 000*

f

General Ledger

Commission revenue (R)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Apr. 30	*Profit and Loss Summary*	*12 000*	*Apr. 30*	*Bank*	*8 000*
				Accrued Commission revenue	*4 000*
		12 000			*12 000*
			May 3	*Bank*	*2 000*

Accrued Commission revenue (A)

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Apr. 30	*Commission Revenue*	*4 000*	*Apr. 30*	*Balance*	*4 000*
		4 000			*4 000*
May 1	*Balance*	*4 000*	*May 3*	*Bank*	*4 000*

Exercise 16.8 Accrued revenue

a/b **General Journal**

Date	Details	Debit $	Credit $
Dec. 31	*Accrued Interest revenue*	*100*	
	Interest revenue		*100*
May 3	*Bank*	*5 150*	
	Term deposit		*5 000*
	Accrued Interest revenue		*100*
	Interest revenue		*50*
	Received cash on maturity of Term Deposit plus		
	interest (EFT trans. 619)		

c

Discussion	*The interest of $150 would be reported as an Operating inflow*
	as it is a cash inflow as a result of day-to-day trading activities.
	The cash received from the Term Deposit not fit neatly into any classification:
	it is not Operating as it is not a day-to-day trading activity;
	it is not Financing as it is not changing the firm's financial structure; and
	it is not Investing as it is not a non-current asset (as it was for 6 months).
	Given that it was taken out as an investment (to generate interest revenue),
	it could be reported as an Investing inflow and this seems useful for decision-
	making.
	However, It could also be included as part of the cash balance on hand.

Exercise 16.9 Reporting for unearned and accrued revenues

a

Explanation	*To ensure that profit is calculated accurately under the Accrual basis*
	by matching/comparing revenues earned against expenses incurred
	in the current Period

b **General Journal**

Date	Details	Debit $	Credit $
Dec. 31	*Accrued Interest Revenue*	*15*	
	Interest Revenue		*15*
Dec. 31	*Bank*	*1 620*	
	Unearned Sales	*1 680*	
	Sales		*3 000*
	GST Clearing		*300*
	Cost of Sales	*2 000*	
	Stock Control		*2 000*

c RAWSON RUGS

Post-adjustment Trial Balance as at 31 December 2025

Account	**Debit $**	**Credit $**
Accounts Payable		*31 070*
Accounts Receivable	*29 600*	
Accumulated Depreciation of Premises		*19 500*
Advertising	*340*	
Allowance for doubtful debts		*500*
Bank *(2 100 + 1 620)*	*3 720*	
Capital – Parker		*51 040*
Cartage in	*990*	
Cost of Sales *(20 420 + 2 000)*	*22 620*	
Depreciation of Premises	*3 900*	
Discount expense	*690*	
Drawings	*8 610*	
GST Clearing *(390 + 300)*		*690*
Interest expense	*400*	
Inventory *(38 750 – 2 000)*	*36 750*	
Inventory gain		*130*
Inventory write-down	*240*	
Mortgage – Bank of Erica (Repayable $12 000 p.a.)		*100 000*
Premises	*130 000*	
Prepaid Advertising	*1 360*	
Profit on disposal of vehicle		*650*
Sales *(43 000 + 3 000)*		*46 000*
Sales returns	*860*	
Term Deposit (Matures 15 April 2030)	*3 600*	
Unearned Sales		*nil*
Wages	*5 900*	
Accrued Interest revenue	*15*	
Interest revenue		*15*
Total	*249 595*	*249 595*

d RAWSON RUGS

Income Statement for 2025

	$	$
Revenue		
Sales	*46 000*	
less Sales returns	*860*	*45 140*
less Cost of Goods Sold		
Cost of sales	*22 620*	
Cartage in	*990*	*23 610*
Gross Profit		***21 530***
add Inventory gain	*130*	
less Inventory write-down	*240*	*110*
Adjusted Gross Profit		***21 420***
add Other Revenue		
Profit on disposal of vehicle	*650*	
Interest revenue	*15*	*665*
		22 085
less Other Expenses		
Advertising	*340*	
Depreciation of Premises	*3 900*	
Discount expense	*690*	
Interest expense	*400*	
Wages	*5 900*	*11 230*
Net Profit (Loss)		***10 855***

e

Item 1	*Sales returns / Cost of sales / Gross, Adjusted Gross,Net Profit*
Item 2	*Inventory gain (reduce by Inventory loss – not Inventory write-down)*

f RAWSON RUGS

Balance Sheet as at 31 December 2025

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank	*3 720*		*Accounts Payable*	*31 070*	
Accounts Receivable	*29 600*		*GST Clearing*	*690*	
Prepaid Advertising	*1 360*		*Mortgage – Bank of Erica*	*12 000*	*43 760*
Inventory	*36 750*				
Accrued Interest revenue	*15*	*71 445*	***Non-Current Liabilities***		
			Mortgage – Bank of Erica		*88 000*
Non-Current Assets					
Premises	*130 000*		***Owner's equity***		
– Accumulated Depreciation	*19 500*	*110 500*	*Capital – Parker*	*51 540*	
Term Deposit		*3 600*	*add Net Profit*	*10 855*	
		114 100		*62 305*	
			less Drawings	*8 610*	*53 695*
Total Assets		***185 545***	***Total Equities***		***185 455***

Exercise 16.10 Revenues, records and reports

a

Reason 1	*Technical obsolescence / Lack of demand*
Reason 2	*Deliberate strategy to sell below cost*

b/e **General Journal**

Date	Details	Debit $	Credit $
June 30	*Disposal of Vehicle*	*20 000*	
	Vehicle		*20 000*
	Accumulated Depreciation of Vehicle	*16 500*	
	Disposal of Vehicle		*16 500*
	Vehicle	*3 100*	
	Disposal of Vehicle		*3 100*
	Loss on Disposal of Vehicle	*400*	
	Disposal of Vehicle		*400*
	Vehicle	*19 900*	
	GST Clearing	*2 300*	
	Bank		*22 200*
June 30	*Unearned Sales Revenue*	*500*	
	Accounts Receivable	*3 900*	
	Sales		*4 000*
	GST Clearing		*400*
	Cost of Sales	*2 500*	
	Stock Control		*2 500*
June 30	*Accrued Interest Revenue*	*350*	
	Interest Revenue		*350*
June 30	*Discount Revenue*	*410*	
	Sales	*164 000*	
	Interest Revenue	*350*	
	Sales returns		*3 000*
	Profit and Loss Summary		*161 760*

c

Reason 1	*Under-depreciation due to overstated useful life/residual value*
Reason 2	*Lack of demand due to damage or superseded by new model*

d

Qualitative characteristic	*Relevance*
Explanation	*Resetting revenue and expense accounts to zero*
	in readiness for the next Period
	ensures that the Income Statement includes only information that is
	useful for decision-making about the current Period.

f **MM'S MUSIC**

Balance Sheet (extract) as at 30 June 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank			*Accounts Payable*		*44 900*
Accounts Receivable	*16 200*		*Accrued Wages*		*1 900*
less Allowance for doubtful debts	*1 650*	*14 550*	*Bank*		*1 800*
Accrued Interest revenue		*350*	*Loan – QuickFin*		*7 200*
GST Clearing		*1 270*	*Unearned Sales*		*15 500*
Inventory		*80 960*			
Prepaid Advertising		*10 400*			
Total Current Assets		*107 530*	**Total Current Liabilities**		*71 300*

g

Explanation	*As a current asset,*
	as it is a resource controlled by the entity
	that has the potential to produce economic benefits
	sometime in the next 12 months when the GST refund is received

Exercise 17.1 Budgeted Cash Flow Statement

a

Calculation

GST on:	*Inventory*	*400*	
	Advertising	*210*	
	Rent	*840*	
	Shop fittings	*350*	*1 800*
		Budgeted GST paid	**$** *1 800*

b TOP HATS

Budgeted Cash Flow Statement for July 2026

	$	$
OPERATING ACTIVITIES		
Cash sales	*12 000*	
Receipts from Accounts Receivable	*3 300*	
GST Received	*1 200*	*16 500*
GST Paid	*(1 800)*	
Cash Purchase of Inventory	*(4 000)*	
Advertising	*(2 100)*	
Wages	*(3 600)*	
Interest Expense	*(230)*	
Prepaid Rent Expense	*(8 400)*	*20 130*
Net Cash Flows from Operations		***(3 630)***
INVESTING ACTIVITIES		
Shop Fittings		*3 500*
Net Cash Flows from Investing Activities		***(3 500)***
FINANCING ACTIVITIES		
Loan Repayment	*(1 600)*	
Drawings	*(1 200)*	*2 800*
Net Cash Flows from Financing Activities		***(2 800)***
Net Increase (Decrease) in Cash		***(9 930)***
Bank Balance at Start		***2 700***
Bank Balance at End		***(7 230)***

c

Action 1	*Reduce outflows such as drawings / reduce or defer the loan repayment /*
	pay only 6 months' rent in advance / defer the purchase of the shop fittings
Action 2	*Increase inflows: capital contribution / use a loan to purchase the fittings /*
	organise a bank overdraft / offer discounts to Accounts Receivable

d TOP HATS

Budgeted Cash Flow Statement (extract) for July 2026

	Cash sales: $15 000		Credit sales: $10 000	
	$	$	$	$
OPERATING ACTIVITIES				
Cash Sales	*15 000*		*12 000*	
Receipts from Accounts Receivable	*3 300*		*6 600*	
GST Received	*1 500*	*19 800*	*1 200*	*19 800*
GST Paid	*(1 800)*		*(1 800)*	
Cash Purchase of Inventory	*(4 000)*		*(4 000)*	
Advertising	*(2 100)*		*(2 100)*	
Wages	*(3 600)*		*(3 600)*	
Interest Expense	*(230)*		*(230)*	
Prepaid Rent Expense	*(8 400)*	*20 130*	*(8 400)*	*20 130*
Net Cash Flows from Operations		***(330)***		***(330)***

e

Explanation	*They should aim to increase Cash sales as a smaller increase ($3 000)*
	brings the same cash inflows as a larger increase in Credit sales ($5 000)
	because not all of the Accounts Receivable will pay in the month of sale.

Exercise 17.2 Cash budget: consecutive periods

a January 2026

Calculation				
	GST on:	*Advertising*	*130*	
		Prepaid Rent	*900*	
			Budgeted GST paid	**$** *1 030*

February 2026

Calculation				
	GST on:	*Advertising*	*130*	
		Vehicle	*2 100*	
			Budgeted GST paid	**$** *2 230*

March 2026

Calculation				
	GST on:	*Advertising*	*130*	
			Budgeted GST paid	**$** *130*

b See next page

c

Action 1	*Defer the purchase of the vehicle until March 2026*
	Bring the capital contribution forward to February 2026
Action 2	*Use a loan to purchase the vehicle*
	Organise a bank overdraft (with a limit of at least $15 160!)

d

Explanation	*Monthly trends can be identified allowing the owner to plan*
	the best time to undertake a cash activity (such as the purchase of an NCA).
or	*Allows for the earlier detection of problems, so that*
	corrective action can be taken in a more timely fashion.

b LOCKHARDT LOCKS

Budgeted Cash Flow Statement for January – March 2026

	January	February	March
OPERATING ACTIVITIES			
Cash Sales	*26 000*	*27 000*	*25 000*
GST Received	*2 600*	*2 700*	*2 500*
Total Operating Inflows	*28 600*	*29 700*	*27 500*
GST Paid	*(1 030)*	*(2 230)*	*(130)*
Payments to Accounts Payable	*(13 200)*	*(14 300)*	*(14 850)*
Wages	*(4 000)*	*(4 000)*	*(4 000)*
Advertising	*(1 300)*	*(1 300)*	*(1 300)*
Interest Expense	*(150)*	*(150)*	*(150)*
Prepaid Rent Expense	*(9 000)*		
GST Settlement	*(1 600)*		
Total Operating Outflows	*(30 280)*	*(21 980)*	*(20 430)*
Net Cash Flows from Operations	***(1 680)***	***7 720***	***7 070***
INVESTING ACTIVITIES			
Cash Sale of Vehicle	*1 900*		
Vehicle		*(21 000)*	
Net Cash Flows from Investing Activities	***1 900***	***(21 000)***	***nil***
FINANCING ACTIVITIES			
Capital Contribution			*15 000*
Drawings	*(2 000)*	*(2 000)*	*(2 000)*
Loan Repayment	*(1 500)*		
Net Cash Flows from Financing Activities	***(3 500)***	***(2 000)***	***13 000***
Net Increase (Decrease) in Cash	***(3 280)***	***(15 280)***	***20 070***
Bank Balance at Start	***3 400***	***120***	***(15 160)***
Bank Balance at End	***120***	***(15 160)***	***4 910***

Exercise 17.3 Schedule of Receipts from Accounts Receivable

a

Reason	*Start of summer sports (such as cricket, tennis)*
	Christmas / Increased advertising / More established customer base

b

Month	Credit sales (incl. GST)	October 2026	November 2026	December 2026
August	***8 800***	*2 640*		
September	***9 900***	*6 930*	*2 970*	
October	***11 000***		*7 700*	*3 300*
November	***12 100***			*8 470*
December	***13 200***			
Budgeted Receipts from Accounts Receivable		***$9 570***	***$10 670***	***$11 770***

c

Explanation	*Credit sales ($12 000) is budgeted to be higher than*
	Receipts from Accounts Receivable ($11 770),
	meaning revenues and budgeted Net Profit will increase.
	by more than cash inflows and budgeted Net Cash Flows from Operations

d

Explanation	*The owner can prepare in advance for a budgeted increase / decrease in cash.*
	A budgeted decrease: organise an overdraft, other finance / defer payments
	A budgeted increase: repay loans, purchase assets, increase drawings

Exercise 17.4 Schedule of Receipts from Accounts Receivable

a

Month	Credit sales (incl. GST)	April 2026	May 2026	June 2026
February	*44 000*	*8 800*		
March	*49 500*	*14 850*	*9 900*	
April	*38 500*	*19 250*	*11 550*	*7 700*
May	*33 000*		*16 500*	*9 900*
June	*22 000*			*11 000*
Budgeted Receipts from Accounts Receivable		***42 900***	***37 950***	***28 600***

b **JAZZY JACKETS**

Budgeted Cash Flow Statement (extract) for April – June 2026

	April	May	June
OPERATING ACTIVITIES			
Cash Sales	*27 000*	*32 000*	*26 000*
GST Received	*2 700*	*3 200*	*2 600*
Receipts from Accounts Receivable	***42 900***	***37 950***	***28 600***
Total Operating Inflows	***72 600***	***73 150***	***57 200***

c

Explanation	*Sets a benchmark to compare actual performance against,*
	to identify / highlight problems
	so corrective action can be taken.

Exercise 17.5 Schedules and the Budgeted Cash Flow Statement

a

Month	Credit sales (incl. GST)	January 2026	February 2026	March 2026
January	*22 000*	*8 360*	*7 700*	*4 400*
February	*27 500*		*10 450*	*9 625*
March	*30 800*			*11 704*
Budgeted Receipts from Accounts Receivable		***8 360***	***18 150***	***25 729***

b

Month	Credit purchases (incl. GST)	January 2026	February 2026	March 2026
January	*13 200*	*6 600*	*6 600*	
February	*14 300*		*7 150*	*7 150*
March	*15 400*			*7 700*
Budgeted Payments to Accounts Payable		***6 600***	***13 750***	***14 850***

c **BETTY'S BAGS**

Budgeted Cash Flow Statement (extract) for January – March 2026

	January	February	March
OPERATING ACTIVITIES			
Cash Sales	*30 000*	*34 000*	*36 000*
GST Received	*3 000*	*3 400*	*3 600*
Receipts from Accounts Receivable	***8 360***	***18 150***	***25 729***
Total Operating Inflows	*41 360*	*55 550*	*65 329*
Payments to Accounts Payable	*(6 600)*	*(13 750)*	*(14 850)*
Advertising	*(2 500)*	*(2 500)*	*(2 500)*
GST Paid	*(250)*	*(250)*	*(250)*
Wages	*(1 800)*	*(1 800)*	*(1 800)*
Total Operating Outflows	*(11 150)*	*(18 300)*	*(19 400)*
Net Cash Flows from Operations	***30 210***	***37 250***	***45 929***

d

Explanation	*Excluded as it is does not involve a cash flow:*
	it is a non-cash expense
	involving the allocation of the cost of a non-current asset over its useful life

e

Explanation	*As a Financing Outflow,*
	as it is a cash outflow related to a change in the firm's financial structure

f BETTY'S BAGS

Budgeted Cash Flow Statement (extract) for July 2026

	Wages: 10% of Sales		**Wages: 20% of Sales**	
	$	**$**	**$**	**$**
OPERATING ACTIVITIES				
Cash Sales	*36 000*		*36 000*	
GST Received	*3 600*		*3 600*	
Receipts from Accounts Receivable	*25 729*	*65 329*	*25 729*	*65 329*
Payments to Accounts Payable	*(14 850)*		*(14 850)*	
Advertising	*(2 500)*		*(2 500)*	
GST Paid	*(250)*		*(250)*	
Wages	*(3 600)*	*(21 200)*	*(7 200)*	*(24 800)*
Net Cash Flows from Operations		***44 129***		***40 529***

g

Explanation	*Betty's Bags can afford an increase in staff.*
	Even with an increase to 20% of sales (which is 4 times as much as budgeted)
	there is still likely to be an Operating Cash surplus,

Exercise 17.6 Budgeted reports

a DAN'S DETERGENTS

Budgeted Cash Flow Statement for May 2026

	$	$
OPERATING ACTIVITIES		
Cash Sales	*15 000*	
GST Received	*1 500*	
Receipts from Accounts Receivable (13 200 – 3 500)	*9 700*	*26 200*
Payments to Accounts Payable (40 000 + GST – 12 000)	*(32 000)*	
Prepaid Advertising	*(1 200)*	
GST Paid (120 + 100 + 600)	*(820)*	
Wages	*(2 000)*	
Rent expense	*(1 000)*	*(37 020)*
Net Cash Flows from Operations		***(10 820)***
INVESTING ACTIVITIES		
Shelving		*(6 000)*
Net Cash Flows from Investing Activities		***(6 000)***
FINANCING ACTIVITIES		
Capital	*20 000*	
Loan – ZNA	*35 000*	*55 000*
Drawings		*(1 900)*
Net Cash Flows from Financing Activities		***53 100***
Net Increase (Decrease) in Cash Position		***36 280***
Bank Balance at Start		***nil***
Bank Balance at End		***36 280***

b DAN'S DETERGENTS

Budgeted Income Statement for May 2026

	$	$
Revenue		
Cash Sales	*15 000*	
Credit Sales	*12 000*	*27 000*
less Cost of Goods Sold		
Cost of Sales		*18 000*
Gross Profit		***9 000***
less Inventory Loss		*500*
Adjusted Gross Profit		***8 500***
less Other Expenses		
Advertising	*200*	
Wages	*2 000*	
Depreciation of Shelving	*50*	
Rent expense	*1 000*	*3 250*
Net Profit		***5 250***

c

Reason 1	*Capital contribution / Loan – ZNA are both cash inflows which increase cash*
	but are not revenues and so have no effect on Net Profit.
Reason 2	*Depreciation / Inventory loss are both expenses which decrease Net Profit*
	but are not cash flows and so do not affect the Net Increase in Cash Position

Also:
Credit sales ($12 000) is greater than Receipts from Accounts Receivable ($9 700) increasing profit more than cash.

d

General Ledger

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May	*Accounts Payable*	*40 000*	*May*	*Cost of Sales*	*18 000*
				Inventory Loss	*500*
				Drawings	*300*
			May 31	*Balance*	*21 200*
		40 000			*40 000*
June 1	*Balance*	*21 200*			

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
May	*Bank*	*600*	*May*	*Bank*	*1 500*
	Accounts Payable	*4 000*		*Accounts Receivable*	*1 200*
	Bank	*120*	*May 31*	*Balance*	*2 120*
	Bank	*100*			
		4 820			*4 820*
June 1	*Balance*	*2 120*			

e DAN'S DETERGENTS

Budgeted Balance Sheet as at 31 May 2026

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank	*36 280*		*Accounts Payable*	*12 000*	
Inventory	*21 200*		*Loan – ZNA*	*6 000*	*18 000*
Accounts Receivable	*3 500*				
Prepaid Advertising	*1 000*		***Non-Current Liabilities***		
GST Clearing	*2 120*	*64 100*	*Loan – ZNA*		*29 000*
Non-Current Assets			***Owner's Equity***		
Shelving	*6 000*		*Capital – Dan*	*20 000*	
less Accumulated depreciation	*50*	*5 950*	*add Net Profit*	*5 250*	
				25 250	
			less Drawings	*2 200*	*23 050*
Total Assets		***70 050***	***Total Equities***		***70 050***

f **Dana's Detergents**

Budgeted Income Statement for May 2026

	Sales: 100% mark-up		**Sales: 150% mark-up**	
	$	**$**	**$**	**$**
Revenue				
Cash Sales	*15 000*		*15 000*	
Credit Sales	*12 000*	*27 000*	*12 000*	*27 000*
less Cost of Goods Sold				
Cost of Sales		*13 500*		*10 800*
Gross Profit		***13 500***		***17 800***
less Inventory Loss		*500*		*500*
Adjusted Gross Profit		***13 000***		***17 300***
less Other Expenses				
Advertising	*200*		*200*	
Wages	*2 000*		*2 000*	
Depreciation of Shelving	*50*		*50*	
Rent expense	*1 000*	*3 250*	*1 000*	*3 250*
Net Profit		***9 750***		***14 050***

g

Explanation	*It assumes that customers will pay more for the same products*
or	*that cheaper products will be able to be sourced to maintain the same sales*
	volume
	(and that Wages and advertising will not need to change).

Exercise 17.7 Budgeted reports

a

Calculation

June	*$18 700 x 40%*	=	*$7 480*
July	*$19 800 x 60%*	=	*11 880*

Budgeted Receipts from Accounts Receivable	**$** *19 360*

b

Calculation

June	*$9 900 x 95%*	=	*$9 405*

Budgeted Payments to Accounts Payable	**$** *9 405*

c JACUZZI JOINT

Budgeted Cash Flow Statement for July 2026

	$	$
OPERATING ACTIVITIES		
Cash Sales	*22 000*	
GST Received	*2 200*	
Receipts from Accounts Receivable	*19 360*	*43 560*
Payments to Accounts Payable	*(9 405)*	
Wages	*(7 500)*	
Electricity	*(200)*	
GST Paid (20 + 1 200)	*(1 220)*	
Accrued Interest Expense	*(300)*	
Interest Expense	*(150)*	*(18 775)*
Net Cash Flows from Operations		***24 785***
INVESTING ACTIVITIES		
Office equipment		*(12 000)*
Net Cash Flows from Investing Activities		***(12 000)***
FINANCING ACTIVITIES		
Capital		*10 000*
Drawings		*(3 100)*
Net Cash Flows from Financing Activities		***6 900***
Net Increase (Decrease) in Cash		***19 685***
Bank Balance at Start		***4 000***
Bank Balance at End		***23 685***

b

Calculation

D. debts = Estimated rate x Net credit sales

= 4% x $18 000

= $720

less Existing balance = $720 - $500

Budgeted Bad debts expense | **$** *220*

e JACUZZI JOINT

Budgeted Income Statement for July 2026

	$	$
Revenue		
Cash Sales	*22 000*	
Credit Sales	*18 000*	*40 000*
less Cost of Goods Sold		
Cost of Sales		*20 000*
Gross Profit		***20 000***
less Inventory Loss		*300*
Adjusted Gross Profit		***19 700***
add Other Revenue		
Discount Revenue		*495*
		20 195
less Other Expenses		
Rent Expense	*1 500*	
Wages	*8 300*	
Depreciation of Office Equipment	*300*	
Electricity	*200*	
Interest Expense	*150*	
Bad debts	*220*	*10 670*
Net Profit		***9 525***

f

Reason 1	*Receipts from Accounts Receivable ($19 360) is will increase cash*
	more than *Credit Sales ($18 000) revenue will increase Net Profit.*
	Cost of Sales ($20 000) is an expense, which will decrease Net Profit
	more than *cash P'ments to Accounts Payable ($9 405) will decrease cash.*
Reason 2	*Others:*
	GST received > GST paid
	Expenses not cash flows: Dep / Bad debts / Inventory loss
	Wages / Rent expense > paid, Rent ex

g

General Ledger

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*28 000*	*July 31*	*Cost of Sales*	*20 000*
31	*Accounts Payable*	*11 000*		*Inventory Loss*	*300*
				Balance	*18 700*
		39 000			*39 000*
Aug. 1	*Balance*	*18 700*			

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July	*Bank*	*20*	*July 1*	*Balance*	*950*
	Accounts Payable	*1 100*	*31*	*Bank*	*2 200*
	Bank	*1 200*		*Accounts Receivable*	*1 800*
	Balance	*2 630*			
		4 950			*4 950*
			Aug. 1	*Balance*	*2 630*

h JACUZZI JOINT

Budgeted Balance Sheet as at 31 July 2026

	$	$		$	$
Current Assets			***Current Liabilities***		
Bank		*23 685*	*GST Clearing*	*2 630*	
Inventory		*18 700*	*Accounts Payable*	*12 100*	
Accounts Receivable	*7 920*		*Accrued Wages*	*800*	*15 530*
less Allowance for doubtful debts	*(720)*	*7 200*			
Prepaid Rent expense		*4 500*	***Non-Current Liabilities***		
		54 085	*Loan – APS Finance*		*30 000*
Non-Current Assets					
Office equipment	*36 000*		***Owner's Equity***		
less Accumulated Depreciation	*7 500*	*28 500*	*Capital – Jacqui*	*53 630*	
Vehicle		*23 000*	*add Net Profit*	*9 525*	
		51 500		*63 155*	
			less Drawings	*3 100*	*60 055*
Total Assets		***105 585***	***Total Equities***		***105 585***

Exercise 17.8 Account reconstruction

a

Item	Budgeted Report
Accounts Receivable balance – 1 July 2025	*Only in Balance Sheet (30 June 2025)*
Accounts Receivable balance – 30 June 2026	*Budgeted Balance Sheet (30 June 2026)*
Credit Sales	*Budgeted Income Statement (2026)*
Discount Expense	*Budgeted Income Statement (2026)*

b

General Ledger

Accounts Receivable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*50 000*		*Bank /*	*115 500*
	Sales/GST Clearing	*110 000*		*Discount Expense*	*4 500*
			June 30	*Balance*	*40 000*
		160 000			*160 000*
1/7/16	*Balance*	*40 000*			

Budgeted receipts from Accounts Receivable	**$**	*115 500*

c

Explanation	*Budgeted Sales is a **key revenue** (in the Budgeted Income Statement) and*
	***cash inflow** (in the Budgeted Cash Flow Statement).*
	It also determines a number of other items which vary directly with the level of
	sales such as Wages, purchases of inventory.

Exercise 17.9 Account reconstruction

a **General Ledger**

Accounts Receivable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	*Balance*	*35 000*		*Bank /*	*46 400*
	Sales / GST Clearing	*66 000*		*Discount Expense*	*2 300*
				Sales Returns / GST Clearing	*3 300*
				Bad Debts	*4 000*
			Dec. 31	*Balance*	*45 000*
		101 000			*101 000*
Jan. 1	*Balance*	*45 000*			

Budgeted receipts from Accounts Receivable	**$**	*46 400*

b **BULLY HIDES**

Budgeted Cash Flow Statement (extract) for 2026

	$	$
OPERATING ACTIVITIES		
Cash Sales	*70 000*	
GST Received	*7 000*	
Receipts from Accounts Receivable	*46 400*	*123 400*

c **General Ledger**

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Dec. 31	*Bank /*	*50 500*	*Jan. 1*	*Balance*	*13 000*
	Discount Revenue	*1 500*		*Inventory / GST Clearing*	*49 500*
Dec. 31	*Balance*	*10 500*			
		62 500			*62 500*
			Jan. 1	*Balance*	*10 500*

Budgeted payments to Accounts Payable	**$**	*50 500*

Exercise 17.10 Account reconstruction

a **General Ledger**

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
July 1	*Balance*	*31 000*		*Cost of Sales*	*35 000*
	Bank	*10 000*		*Drawings*	*3 000*
	Accounts Payable	*18 400*	*June 30*	*Balance*	*26 000*
	Cost of Sales	*600*			
	Inventory Gain	*4 000*			
		64 000			*64 000*
July 1	*Balance*	*26 000*			

Budgeted credit purchases	**$** *19 240*

b **General Ledger**

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Bank /	*19 240*	*July 1*	*Balance*	*16 000*
	Discount Revenue	*2 000*		*Inventory / **GST Clearing***	*20 240*
June 30	*Balance*	*15 000*			
		36 240			*36 240*
			July 1	*Balance*	*15 000*

Budgeted payments to Accounts Payable	**$** *19 240*

Exercise 17.11 Cash Flow Statement Variance Report

a

Explanation	*It aids decision-making by allowing for a comparison between the budget benchmark and actual cash performance so that problems can be identified and corrective action taken.*
OR	*It aids planning by providing a basis for the formulation of the next Budgeted Cash Flow Statement.*

b **SIMPLY STUNNING**

Cash Flow Variance Report for the year ended 30 June 2026

	Budgeted	Actual	Variance	Fav./Unfav.
OPERATING ACTIVITIES				
Receipts from Accounts Receivable	99 200	89 200	*10 000*	*U*
Cash Sales	85 000	94 000	*9 000*	*F*
GST Received	8 500	9 400	*900*	*F*
Payments to Accounts Payable	(115 000)	(136 000)	*21 000*	*U*
Prepaid Rent Expense	(12 000)	(15 000)	*3 000*	*U*
GST Paid	(1 440)	(1 590)	*150*	*U*
Wages	(30 000)	(26 000)	*4 000*	*F*
Advertising	(2 400)	(900)	*1 500*	*F*
Interest Expense	(2 700)	(3 100)	*400*	*U*
GST Settlement	(3 700)	(4 600)	*900*	*U*
Net Cash Flows from Operations	**25 460**	**5 410**	***20 050***	***U***
INVESTING ACTIVITIES				
Cash Sale of Equipment	5 000	3 000	*2 000*	*U*
Shelving	–	(12 000)	*12 000*	*U*
Net Cash Flows from Investing Activities	**5 000**	**(9 000)**	***14 000***	***U***
FINANCING ACTIVITIES				
Capital Contribution	–	20 000	*20 000*	*F*
Loan	(5 000)	–	*5 000*	*F*
Drawings	(36 000)	(40 000)	*4 000*	*U*
Net Cash Flows from Financing Activities	**(41 000)**	**(20 000)**	***21 000***	***F***
Net Increase (Decrease) In Cash Position	**(10 540)**	**(23 590)**	***13 050***	***U***
Bank Balance at Start	**8 500**	**8 500**	**–**	**–**
Bank Balance at End	**(2 040)**	**(15 090)**	***13 050***	***U***

c

Favourable / Unfavourable	*Unfavourable*
Justification	*Actual payments to Accounts Payable is greater than budgeted,*
	meaning the cash balance will decrease by more than expected.

d

Reason	*Because the business had exceeded its overdraft limit*
	To fund the unexpected purchase of the shelving

e

Explanation	*The cash balance will be $14 000 lower than expected,*
	because the equipment was sold for $2 000 less than budgeted,
	and the purchase of the shelving for $12 000 was not expected at all.

e

Assessment	*Operating Cash Flows is much worse than expected.*
	Despite higher than expected cash sales, receipts from Accounts Receivable
	was lower than budgeted which may indicate problems with collection
	procedures.
	Much higher payments to Accounts Payable and for rent (perhaps due to a
	new lease?) more than offset lower spending on Advertising and Wages.
	The firm didn't realise as much from the sale of its equipment and had to make
	an unexpected payment for new shelving which caused a $14 000 variance in
	Investing activities.
	Financing activities was $19 000 higher than expected but this was because
	the owner had to make a capital contribution
	and the business still exceeded its overdrat limit by more than $9 000.

g

Asset 1	*Bank*
Justification	*The sum of the variances means Bank will be $11 050 lower than budgeted.*
Asset 2	*Accounts Receivable / Prepaid Rent Expense / Shelving*
Justification	*Less Receipts from Accounts Receivable*

Exercise 17.12 Cash Flow Statement Variance Report

a

Calculation

	Budgeted rent paid	*$12 000*	
–	*Prepaid rent at start*	*300*	*(Paid last period)*
+	*Prepaid rent at end*	*500*	*(Paid this period)*
		$12 200	

Actual rent paid | **$** *12 200*

b **BRIGHT LIGHTS**

Cash Variance Report (extract) for the year ended 30 June 2026

	Budgeted	Actual	Variance	Fav./Unfav
Operating Activities				
Receipts from Accounts Receivable	100 000	105 000	*5 000*	*F*
Payments to Accounts Payable	(45 000)	*(40 000)*	5 000	F
Interest expense	*(500)*	(800)	300	U
GST Paid	(6 000)	(4 500)	*1 500*	*F*
Prepaid Rent expense	(12 000)	*(12 200)*	*200*	*U*
Investing Activities				
Sale of Shelving	*4 000*	5 000	1 000	U
Van	(17 000)	(23 000)	*6 000*	*U*
Financing Activities				
Loan	7 500	*10 000*	2 500	F
Drawings	(25 000)	(15 000)	*10 000*	*F*

c

Explanation *The actual amount received for the loan was $2 500 higher than expected, meaning the cash balance will be higher than budgeted.*

d

Reason	*Decreased bad debts written off*
	Faster paying Accounts Receivable / better debtor management

e

Explanation	*The higher than expected loan*
	could mean higher interest charges, and thus a lower budgeted Net Profit.

Exercise 17.13 Income Statement Variance Report

a

Explanation	*It is a means of checking the performance of the business,*
	and the accuracy of the budgets,
	before decisions are made and budgets are prepared for the next period.

b TOOT AND TWANG

Income Statement Variance Report (extract) for the year ended 30 June 2026

	Budgeted	Actual	Variance	Fav./Unfav.
Revenue				
Sales	120 000	110 000	*10 000*	*U*
less Cost of Goods Sold				
Cost of sales	70 000	55 000	*15 000*	*F*
Gross Profit	**50 000**	**55 000**	***5 000***	***F***
add/less Inventory gain (loss)	1 500	(4 200)	*5 700*	*U*
Adjusted Gross Profit	**51 500**	**50 800**	***700***	***U***
add Other Revenue				
Profit on Disposal of Vehicle	1 500	6 500	*5 000*	*F*
	53 000	**57 300**	***4 300***	***F***
less Other Expenses				
Wages	18 000	19 000	*1 000*	*U*
Rent	12 000	14 000	*2 000*	*U*
Depreciation of Vehicles	2 300	1 600	*700*	*F*
Interest expense	1 400	1 800	*400*	*U*
Net Profit (Loss)	**19 300**	**20 900**	***1 600***	***F***

c

Explanation	*Favourable as actual Cost of Sales is lower than budgeted,*
	meaning Net Profit will be higher than budgeted.

d

Reason	*Sold a vehicle (which was not replaced) earlier than expected*
	Changed depreciation methods

e

Explanation	*The profit variance is only favourable due to the higher than expected*
	profit on sale of vehicle which is unlikely to happen every period.
	Sales is lower than expected
	Inventory loss / Wages increased despite a fall in Sales

Exercise 17.14 Income Statement Variance Report

a BLADES

Income Statement Variance Report (extract) for the year ended 30 June 2026

	Budgeted	Actual	Variance	Fav./Unfav.
Revenue				
Sales	105 000	90 000	*15 000*	*U*
less Sales Returns	8 500	*4 000*	4 500	F
Net Sales	**96 500**	***86 000***	***10 500***	***U***
less Cost of Goods Sold				
Cost of Sales	48 000	54 000	*6 000*	*U*
Cartage Inwards	3 000	1 000	*2 000*	*F*
Total Cost of Goods Sold	*51 000*	*55 000*	*4 000*	*U*
Gross Profit	**45 500**	***31 000***	***14 500***	***U***
less Inventory Loss	1 800	2 300	*500*	*U*
Adjusted Gross Profit	**43 700**	***28 700***	***15 000***	***U***
less Other Expenses				
Wages	28 000	*33 000*	5 000	U
Rent	15 000	18 000	*3 000*	*U*
Depreciation of Equipment	1 400	2 200	*800*	*U*
Interest Expense	*1 100*	800	300	F
Net Profit (Loss)	***(1 800)***	***(25 300)***	***(23 500)***	***U***

b

Reason 1	*Lower sales*
Reason 2	*Better quality / more suitable inventory*

c

Reason	*Lower interest rate /*
	Repaid more of the loan principal than expected

d

Explanation	*Unfavourable variance means less less able to cover Other Expenses*
	and provide for Net Profit.

e

Assessment	*The profit performance is much worse than expected, due to both lower than*
	expected Sales revenue and higher than expected expenses.
	Actual Sales is lower than budgeted indicating revenue earning has fallen
	expectation. At the same time, Cost of sales has actually increased.
	This could mean higher prices charged by suppliers were passed on to
	customers who chose to not buy.
	There is also an increase in Inventory loss which – particularly considering
	sales was lower than expected – could mean problems with handling
	techniques or security.
	The unfavourable variance in Wages is concerning given the lower than
	expected Sales and might indicate over-staffing (or a lack of utilisation given
	lower sales.
	Higher Rent indicates a new lease which has not been covered as well by
	Sales.

Exercise 17.15 Account reconstruction and budgeted reports

a

Calculation

	Carrying value	*$400*	*($4 800 – $4 400)*
+	*Profit on disposal*	*300*	
		$700	

Budgeted proceeds on sale of shop fittings | $ *700*

b

Calculation

Accounts Receivable

Balance	*17 600*	*Bank/*	***319 088***
Credit Sales/GST	*330 000*	*Disc. Expense (2%)*	*6 512*
		Balance	*22 000*
	347 600		*347 600*
Balance			

Budgeted Receipts from Accounts Receivable | $ *319 088*

c

Calculation

Accounts Payable

Bank	***158 400***	*Balance*	*41 800*
Balance	*37 400*	*Inventory/GST*	*154 000*
	195 800		*195 800*
		Balance	*37 400*

Budgeted Payments to Accounts Payable | $ *158 400*

d

Calculation

GST on:	*Occ. expenses*	*4 700*
	Office expenses	*3 900*
	Advertising	*180*

Budgeted GST paid | $ *8 780*

e **BAYES SURFBOARDS**

Budgeted Cash Flow Statement for 2026

	$	$
OPERATING ACTIVITIES		
Receipts from Accounts Receivable	*319 088*	
GST Refund	*3 000*	*322 088*
Payments to Accounts Payable	*(158 400)*	
Occupancy Expenses	*(47 000)*	
Office Expenses	*(39 000)*	
Wages	*(35 000)*	
Accrued Wages	*(700)*	
GST Paid	*(8 780)*	
Prepaid Advertising	*(1 800)*	*(290 680)*
Net Cash Flows from Operations		***31 408***
INVESTING ACTIVITIES		
Cash Sale of Shop Fittings		*700*
Net Cash Flows from Investing Activities		***700***
FINANCING ACTIVITIES		
Loan – AX Bank		*10 000*
Drawings		*(12 000)*
Net Cash Flows from Financing Activities		***(2 000)***
Net Increase (Decrease) in Cash		***30 108***
Bank Balance at Start		***(5 000)***
Bank Balance at End		***25 108***

f

Explanation	*Variance reports can be prepared more frequently, allowing problems to be*
	identified earlier so that more timely corrective action can be taken.
or	*More frequent budgets are likely to be more accurate,*
	and thus more useful as a benchmark for comparison with actual figures.

g

General Ledger

Inventory

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	*Balance*	*62 400*		*Cost of Sales*	*150 000*
	Accounts Payable	*140 000*		*Inventory Loss*	*2 500*
			Dec. 31	*Balance*	*49 900*
		202 400			*202 400*
Jan. 1	*Balance*	*49 900*			

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
Jan. 1	*Balance*	*3 000*		*Bank*	*3 000*
	Accounts Payable	*14 000*		*Accounts Receivable*	*30 000*
	Bank	*8 780*			
Dec. 31	*Balance*	*7 220*			
		33 000			*33 000*
			Jan. 1	*Balance*	*7 220*

h **BAYES SURFBOARDS**

Budgeted Balance Sheet (extract) as at 31 December 2026

	$		$
Current Assets		**Current Liabilities**	
Bank	*25 108*	*Accounts Payable*	*37 400*
Accounts Receivable	*22 000*	*GST Clearing*	*7 220*
less Allowance for doubtful debts	*(3 000)*	*Loan – AX Bank*	*10 000*
Inventory	*49 900*	*Accrued Interest Expense*	*600*
Prepaid Advertising	*1 350*		
Total Current Assets	***95 358***	**Total Current Liabilities**	***55 220***

i

Explanation	*It details the expected carrying value of non-current assets*
	so the owner can prepare for their replacement
	It can be used to plan for the repayment of loans / to set a level for Drawings
	(must be done in conjunction with the Budgeted Cash Flow Statement).

Exercise 17.16 Account reconstruction and budgeted reports

a

Calculation

	Existing prepaid rent (2 months x $500)	*$1 000*
+	*New contract (10 months x $600)*	*6 000*
		$7 000

Budgeted Photocopier rent expense | $ *7 000*

b

Calculation

Interest revenue = $\$6\,000 \times 8\% \times {}^{3}/_{12}$

= *$120*

Budgeted Interest revenue | $ *120*

c

Calculation

Doubtful debts = *[$180 000 – ($180 000 x 5%)] x 1%*

= *($180 000 – $9 000) x 1%*

= *$1 710*

Bad debts = *Doubtful debts – Allowance for doubtful debts*

= *$1 710 - 800*

Budgeted Bad debts expense | $ *910*

d DIGITAL MASTERS

Budgeted Income Statement for the year ended 30 June 2026

	$	$
Revenue		
Cash sales	*42 000*	
Credit sales	*180 000*	
	222 000	
less Sales returns	*9 000*	*213 000*
less Cost of Goods Sold		
Cost of sales		*142 000*
Gross Profit		***71 000***
less Inventory loss		*2 220*
Adjusted Gross Profit		***68 780***
add Other revenue		
Interest revenue		*120*
		70 220
less Other expenses		
Bad debts expense	*910*	
Discount expense	*3 600*	
Wages	*29 000*	
Depreciation of Shop Fittings	*5 300*	
Photocopier rent	*7 000*	*45 810*
Net Profit (Loss)		***24 410***

e

Explanation	*It allows the owner to assess the adequacy of the firm's expected mark-up,*
	so that preparations can be made to . . .
	access a cheaper supplier / raise or lower selling prices.

f DIGITAL MASTERS

Budgeted Balance Sheet (extract) as at 30 June 2026

Current Assets	**$**	**$**	**$**
Prepaid photocopier rent		*1 200*	
Accounts Receivable	*31 600*		
less Allowance for doubtful debts	*1 710*	*29 890*	
Inventory		*106 780*	
Accrued interest revenue		*120*	*137 990*
Non-Current Assets			
Shop fittings	*48 000*		
less Accumulated depreciation	*26 900*	*21 100*	
Term deposit		*6 000*	*27 100*
Total Assets			***165 090***

g DIGITAL MASTERS

Budgeted Income Statement for the year ended 30 June 2026

	$	$
Revenue		
Cash sales	*44 100*	
Credit sales	*189 000*	
	233 100	
less Sales returns	*9 450*	*223 650*
less Cost of Goods Sold		
Cost of sales		*149 100*
Gross Profit		***74 550***
less Inventory loss		*2 331*
Adjusted Gross Profit		***72 219***
add Other revenue		
Interest revenue		*120*
		72 339
less Other expenses		
Advertising	*3 000*	
Bad debts expense	*996*	
Discount expense	*3 780*	
Wages	*29 000*	
Depreciation of Shop Fittings	*5 300*	
Photocopier rent	*7 000*	*49 076*
Net Profit (Loss)		***23 263***

Exercise 18.1 Profitability

a

Explanation	*Profitability measures a firm's ability to earn profit,*
	not just its profit in dollar terms.
	Profitability expresses profit in relation to another measure (e.g. assets)
	to provide a common base for comparison between periods or between firms.

b

Base 1	*Level of assets*
Base 2	*Owner's investment / Sales*

Exercise 18.2 Return on Owner's Investment

a

Calculation

$$ROI = \frac{\textit{Net Profit}}{\textit{Average Owner's Equity}} \times 100$$

$$= \frac{\$15\ 000}{\$150\ 000} \times 100$$

Return on Owner's Investment – 2024	*10* **%**

Calculation

$$ROI = \frac{\textit{Net Profit}}{\textit{Average Owner's Equity}} \times 100$$

$$= \frac{\$14\ 400}{\$120\ 000} \times 100$$

Return on Owner's Investment – 2025	*12* **%**

b

Explanation	*Although Net Profit decreased (from $15 000 to $14 400, or 4%),*
	Owner's Equity decreased by proportionately more
	($150 000 to $120 000, or 20%),
	meaning the owner is earning a greater return on a smaller investment.

c

Reason 1	*ROI has increased (from 10% to 12%).*
Reason 2	*ROI is higher than the return 8% on the alternative investment (property trust).*

d

Reason	*Net Profit has decreased (from $15 000 to $14 400):*
	the only reason for the increase in ROI is the (larger) reduction in Owner's Equity.

Exercise 18.3 Return on Owner's Investment and Debt Ratio

a

Improved / Worsened	*Improved (Worsened)*
Justification	*ROI increased (ROA decreased)*

b

Calculation

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$$

$$= \frac{\$180\ 000}{\$400\ 000} \times 100$$

Debt Ratio – 2024 *45* **%**

Calculation

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$$

$$= \frac{\$320\ 000}{\$400\ 000} \times 100$$

Debt Ratio – 2025 *80* **%**

c

Explanation	*Higher Debt Ratio means a decrease in the firm's long-term stability*
	because there is a greater reliance on borrowed funds,
	and thus a greater risk that the business will be unable to repay
	both its debts and any interest charges (especially if interest rates rise).

d

Explanation	*The increase in the Debt Ratio has led to an increase in the Return on Owner's*
	Investment and an increase in profitability from an investor's perspective
	as the business is using borrowed funds to finance its operations,
	but the owner still receives any profits.

e

Discussion	*The owner may be pleased with the higher Return on Owner's Investment*
	as it indicates that she is earning more profit per dollar she has invested.
	However, Net Profit has actually fallen, so
	the increase in the ROI is at the cost of a higher Debt Ratio and less stability,
	which means a greater risk that the business will be unable to meet its debts;
	and assets have remained the same, so Return on Assets has actually fallen,
	indicating less profitable use of assets – none of which is pleasing.

Exercise 18.4 Return on Owner's Investment and Return on Assets

a

ROA measures	*profit generated per dollar of assets controlled by the business /*
	how profitably the firm's assets have been used to earn profit

b

Calculation

$$ROA = \frac{\text{Net Profit}}{\text{Average Total Assets}} \times 100$$

$$= \frac{\$12\,000}{\$120\,000} \times 100$$

Return on Assets – Legends Guitars	*10* **%**

Calculation

$$ROA = \frac{\text{Net Profit}}{\text{Average Total Assets}} \times 100$$

$$= \frac{\$12\,000}{\$150\,000} \times 100$$

Return on Assets – Axeman's Heaven	*8* **%**

c

Explanation	*Axeman's Heaven has a higher Debt Ratio/Owner's Equity is lower*
	so the owner is earning the same profit on a smaller investment
	(as the funds to finance the firm's operations are being provided by liabilities).

d

More profitable firm	*Legends Guitars*
Justification	*Return on Assets is higher.*
	(The business has earned the same profit using less assets.)

e

Explanation	*Its Owner's Equity will always be lower than its assets*
	due to its liabilities.
	(The extent of this difference will depend on the level of liabilities
	ie the Debt Ratio.)

f

Indicator	*Asset Turnover / Net Profit Margin*
Explanation	*To assess how effectively the firm is using its assets to generate Sales /*
	To assess how much of each dollar of Sales revenue is retained as Net Profit.
	Both will allow the owner to identify whether the owner should focus on
	revenue generation or expense control.

Exercise 18.5 Return on Assets and Asset Turnover

a

ATO measures	*Sales revenue generated per dollar of assets controlled by the firm /*
	how effectively the firm's assets have been used to generate Sales

b

Calculation

$$ATO = \frac{\textit{Sales revenue}}{\textit{Average Total Assets}}$$

$$= \frac{\$300\ 000}{\$200\ 000}$$

Asset Turnover – 2023 | *1.5* **times**

Calculation

$$ATO = \frac{\textit{Sales revenue}}{\textit{Average Total Assets}}$$

$$= \frac{\$448\ 000}{\$280\ 000}$$

Asset Turnover – 2024 | *1.6* **times**

c

Explanation	*Sales revenue increased (by $148 000 – almost 50%)*
	proportionately more than the increase in Average Total Assets
	(which increased by $80 000, or $40%),
	indicating an improved ability to use assets to earn Sales revenue.

d

Explanation	*Asset Turnover increased (indicating an improved ability to generate revenue),*
	but Return on Assets actually decreased (indicating worsening profitability).
	Given that revenue increased,
	the only reason for a lower Return on Assets is poorer expense control.

e

Strategy 1	*Cheaper supplier – cheaper Cost of Sales*

Strategy 2	*Reduce inventory loss/Better control over advertising; wages*

Exercise 18.6 Asset Turnover and Net Profit Margin

a

Reason 1	*Asset Turnover is lower than the industry average*
	(indicating it is not using its assets as effectively to earn Sales revenue).
Reason 2	*Net Profit Margin is lower than the industry average*
	(indicating it is retaining less of every dollar of Sales revenue as Net Profit).

b

Benchmark 1	*The Return on Assets from a previous period*
Benchmark 2	*The budgeted Return on Assets*

c

Strategy 1	*Increase advertising*
Strategy 2	*Reduce selling prices (provided Qty sold increases to offset the lower SP)*

d

Explanation	*Some expenses (such as Cost of Sales and possibly Wages) are variable,*
	and must increase in line with Sales volume.
	If these expenses increase in proportion to (or less than) Sales
	it indicates satisfactory expense control.

e

	Higher / Lower / Same / Unable to be determined
Debt Ratio	*Higher*
Justification	*Return on Owner's Investment is higher than the industry average*
	(in spite of Net Profit being lower).

Exercise 18.7 Net Profit Margin

a

Indicator	*Asset Turnover has decreased.*

b

Reason	*Average total assets increased by (proportionately) more than the increase*
	in Sales.

c

Net Profit Margin	*Net Profit earned per dollar of Sales revenue*
	the percentage of every dollar of Sales revenue retained as Net Profit.

d

Calculation

$$NPM = \frac{\textit{Net Profit}}{\textit{Sales revenue}}$$

$$= \frac{\$8\ 500}{\$153\ 000}$$

Net Profit Margin – 2024 *5.56* **%**

Calculation

$$NPM = \frac{\textit{Net Profit}}{\textit{Sales revenue}}$$

$$= \frac{\$11\ 000}{\$175\ 000}$$

Net Profit Margin – 2025 *6.29* **%**

e

Explanation	*The Net Profit Margin has increased proportionately more than the decrease in*
	the Asset Turnover: although the firm has been less effective at earning Sales*
	revenue,its expense control has improved,
	meaning more of every dollar of Sales revenue is retained as Net Profit.

* *Alternative first point:*
Net Profit has increased proportionately more than the increase in average Total Assets.

Exercise 18.8 Gross Profit Margin

a

Gross Profit Margin	*Gross Profit earned per dollar of Sales revenue /*
	percentage of every dollar of Sales revenue retained as Gross profit

b

Calculation

$$GPM = \frac{\textit{Gross Profit}}{\textit{Sales revenue}}$$

$$= \frac{\$75\,000}{\$120\,000}$$

Gross Profit Margin *62.5* **%**

c

Strategy 1	*Decrease cost prices by finding a cheaper supplier / cheaper delivery company*
Strategy 2	*Increase selling prices (any strategy that would increase the average mark-up)*

d

Explanation	*It will increase the average mark-up and Gross Profit Margin.*
	However, customers may be unwilling to pay the higher prices,
	leading to a decrease in the volume/quantity of sales,
	i.e. more profit per sale may be offset by fewer sales.

e

Strategy 1	*Use of security measures to reduce theft / Staff training to reduce damage*
Strategy 2	*Careful checking of sales / purchases against invoice*

* *Any strategy to reduce Inventory loss*

Exercise 18.9 Gross Profit Margin

a

Reason 1	*Increase in cost prices, higher period costs*
Reason 2	*Decrease in selling prices (any reason causing a decrease in average mark-up)*

b

Explanation	*Increasing advertising will not change the average mark-up*
	as it does not affect selling prices or cost prices.
	It may generate greater sales volume (and thus greater Sales revenue),
	but will not affect the gross profit per dollar of Sales revenue.

c

Strategy	*Decrease cost prices by finding a cheaper supplier * /*
	Decrease period costs (by finding a cheaper delivery company)

d

Explanation	*Higher advertising will increase expenses, but should mean more Sales*
	revenue (as more customers know about the business and its products).
	If the increase in Sales revenue is proportionately more than the increase in
	Advertising, the Net Profit Margin will increase. If not, it will decrease.

e

Information 1	*The number of sales returns / The number of purchase returns*
Information 2	*The number of customer complaints / Number of items written off*

f

Limitation	*It only reflects the average mark-up / It relies on historical data*
	It doesn't assess revenue earning ability; control of Other Expenses

Exercise 18.10 Vertical analysis of the Income Statement

a

Reason 1	*Increase in advertising ie more people know about the business / its products*
Reason 2	*Decrease in Gross Profit Margin indicating decrease in selling prices*
Reason 3	*Higher wages meaning better service / Higher rent meaning better location*

b

Improved / Worsened	*Worsened*
Justification	*The Net Profit Margin has decreased (from 15% to 14%),*
	indicating less of every dollar of Sales revenue is retained as Net Profit.

c

Explanation	*A lower Gross Profit Margin (possibly due to lower selling prices)*
	has generated greater Sales volume,
	leading to higher Sales revenue and higher Net Profit (in dollar terms).

d

Reason 1	*Adjusted Gross Profit has increased in dollar terms.*
Reason 2	*Smaller gap between Gross Profit Margin and Adjusted Gross Profit Margin*
	indicating better management of inventory loss.

e

Strategy 1	*Better assessment of number of staff required*
Strategy 2	*Better training to improve staff productivity / service levels*

f

Reason	*Signed a new lease at a higher rate / Moved to more expensive premises*

g

Discussion	*Increased Advertising expense has a negative effect on Net Profit.*
	However,
	because more potential customers know about the business and its products,
	Sales revenue has increased,
	and by proportionately more than Advertising expense.
	As a result, Advertising expense decreased as a percentage of sales,
	leading to a positive effect on the Net Profit Margin.
	(Net Profit Margin has decreased mainly due to higher Cost of Goods Sold.)
	Overall, higher advertising has been beneficial for profitability.

h

Information 1	*Staff turnover / Average length of employment*
Information 2	*Number of days lost due to sick leave/industrial action*

Exercise 18.11 Graphical representation of vertical analysis

a

Asset Turnover

Improved / Worsened	*Improved*
Explanation	*Sales increased but Total assets stayed the same,*
	indicating an improved ability to use the same assets to earn more Sales
	revenue.

Gross Profit Margin

Improved / Worsened	*Worsened*
Explanation	*Sales increased but Gross Profit didn't increase at the same rate*
	(as shown by the lower gradient in the line graph,
	indicating a lesser ability to retain Sales revenue as Gross Profit
	(and a lower average mark-up).

b

Explanation	*Higher Sales revenue, possibly due to*
	lower selling prices / an effective advertising campaign / complementary
	products / rotation of inventory et al

c

Explanation	*Lower average mark-up,*
	due to lower selling prices (possibly due to a deliberate strategy to generate
	sales volume – which is consistent with the increase in Sales revenue)
	or higher cost prices charged by suppliers.

d

Discussion	*Given that Sales revenue increased, the fall in the Gross Profit is concerning*
	as it indicates a lower average mark-up.
	This means expense control as it relates to Cost of Goods Sold has worsened
	and strategies must be considered to improve retain more Gross Profit.
	However, the overall expense control has actually improved
	because the Net Profit Margin has stayed the same.
	Given the Gross Profit Margin fell, this must mean the percentage of Sales
	revenue consumed by Other Expenses must have actually fallen,
	meaning improved control of expenses like Wages, Advertising, Bad debts,
	and others.

e

Action	*Find a cheaper supplier*
	Reduce buying expenses (eg. freight in, modifications)

f

Discussion	*In the short-term, Quick-a-Count could improve the financial performance of*
	Clarke Doors as it would mean expesnes would be 15% lower.
	However, the possibility that Quick-a-Count exploits overseas employees is
	both an ethical and long-term financial problem.
	Carke Doors has an ethical responsibility to avoid trade with businesses
	whose activities are socially damaging, and exploiting employees is just such
	an activity.
	In the long-term, using this unethical organisation could have negative
	consequences for Clarke Doors as customers choose to buy from other firms
	who are more ethical and sales – and profits – suffer.
	Clarke Doors also has an ethical responsibility to consider its own employee,
	particularly as he has been with them for such a long time.
	Clarke Doors needs to weigh the short-term financial benefits against the
	ethical and long-term financial consequences.

Exercise 18.12 Graphical representation of vertical analysis

a

Reason	*Increase in advertising (in dollar terms and as a percentage of Sales revenue)*

b

Explanation	*Rent was fixed (possibly due to a lease) at $18 000 per year,*
	so as Sales revenue increased it consumed less as a percentage of Sales.

c

Strategy 1	*Better inventory management eg. rotation / physical security (e.g. cameras) /*
	staff training / more careful checking of purchases,sales
Strategy 2	*Reduction in inventory on hand*

d

	Higher / Lower / Same
Wages	*Higher*
Justification	*Wages is consuming the same percentage of each dollar of Sales revenue*
	but Sales revenue has increased in 2016.

e

Explanation	*Cost of Goods Sold has increased as a percentage of Sales revenue,*
	meaning a lower average mark-up
	and less of every dollar of Sales revenue retained as Gross Profit.

f

Discussion	+ *higher Sales revenue*
	+ *higher Asset Turnover indicates ability to earn revenue increased*
	– *lower Gross Profit Margin indicates a lower average mark-up*
	+ *constant Net Profit Margin indicates control of Other Expenses improved*
	+ *higher Sales revenue and constant Net Profit Margin means higher Net Profit*
	+ *higher Net Profit and constant assets means higher Return on Assets*
	+/- higher Net Profit and higher Owner's Equity
	may mean higher or lower Return on Owner's Investment

+ *Improved profitability* – *Worsened profitability*

Exercise 19.1 Liquidity

a

Reason 1	*There are likely to be sources of liquid funds other than just cash in the bank,*
	such as Accounts Receivable, inventory, and GST (refund).
Reason 2	*The owner must also consider the level of current liabilities*
	– the obligations that are due to be met (Accounts Payable/loans/GST payable).

b

Indicator 1	*Working Capital Ratio*
Indicator 2	*Quick Asset Ratio*

c

Indicator 1	*Inventory Turnover /*
Indicator 2	*Accounts Receivable Turnover / Accounts Payable Turnover*

Exercise 19.2 Working Capital Ratio

a

Measures	*liquidity,*
	ie. a firm's ability to meet its current liabilities using its current assets.

b

Calculation

$$WCR = \frac{\textit{Current assets}}{\textit{Current liabilities}}$$

$$= \frac{\$34\ 000}{\$42\ 500}$$

Working Capital Ratio *0.8* **:1**

c

Assessment	*The Working Capital Ratio is less than 1:1.*
	Thus, the firm has insufficient current assets to meet its current liabilities,
	and may be unable to meet its short-term debts as they fall due
	without the aid of additional finance (such as loans or capital).

d

Action 1	*Make a capital contribution / Reduce drawings / Organise a bank overdraft*
Action 2	*Defer the purchase of assets / Use credit facilities / Defer the repayment of loans*

Exercise 19.3 Working Capital Ratio

a

Explanation	*It has reduced, indicating less current assets for every dollar of current*
	liabilities meaning the firm is less able to meet its short-term debts as they fall
	due, and may require the owner to organise or extend a bank overdraft / make
	a capital contribution / arrange alternative finance.

b

Explanation	*It is a static measure, and does not indicate the timing of cash flows (eg. when*
	current assets will be turned into cash/current liabilities are due to be paid)
or	*It relies on historical data, which may not result in cash flows (eg. bad debts)*
or	*It includes assets that might be difficult to liquidate quickly (eg. inventory)*

c

Explanation	*It predicts/forecasts expected cash inflows and outflows,*
	indicating whether the business will generate sufficient cash flows
	to meet its obligations.

Exercise 19.4 Working Capital Ratio and Quick Asset Ratio

a

Measures	*immediate liquidity*
	ie. a firm's ability to meet its quick liabilities using its quick assets

b

Explanation	*The business will already be selling its inventory as fast as it can, so there is*
	no guarantee that inventory can be liquidated immediately to meet immediate
	debts. Therefore, it cannot be counted as a source of immediate liquid funds.

c

Calculation

$$QAR = \frac{\textit{Current assets (excl. Inventory and Prepaid exp.)}}{\textit{Current liabilities}}$$

$$= \frac{\$34\ 400}{\$33\ 500}$$

Quick Asset Ratio *1.03* **:1**

d

Assessment	*The Quick Asset Ratio is greater than 1:1.*
	Thus, the firm has sufficient quick assets to meet its quick liabilities,
	and should be able to meet its short-term debts as they fall due.

e

Explanation	*The main component if the quick assets is Accounts Receivable.*
	If the business can collect its cash fast enough from its Accounts Receivable
	it should be able to meet its quick liabilities
	(the main one of which is Accounts Payable).

Exercise 19.5 Working Capital Ratio and Quick Asset Ratio

a

Explanation	*Large purchases of inventory on credit would*
	increase Inventory and thus current assets and the Working Capital Ratio
	but not quick assets and thus not the Quick Asset Ratio.

b

Explanation	*This means assets are idle, and not earning as much as they could:*
	Bank (interest is relatively low) / Accounts Receivable (are not paying) /
	Inventory (is not selling).
	The funds tied up in these assets could be employed more usefully elsewhere.

c

Explanation	*Working Capital Ratio > 1:1 means if inventory is sold fast enough to meet the*
	Accounts Payable' terms, the business should not have liquidity problems.
	Quick Asset Ratio < 1:1 means if inventory is not sold fast enough to meet
	Accounts Payable' terms, liquidity problems could ensue.

Exercise 19.6 Cash Flow Cover (CFC)

a

Calculation

$$CFC = \frac{\text{Net Cash Flows from Operations}}{\text{Average Current Liabilities}}$$

$$= \frac{\$39\ 000}{\$13\ 000}$$

Cash Flow Cover – 2024	*3* **times**

Calculation

$$CFC = \frac{\text{Net Cash Flows from Operations}}{\text{Average Current Liabilities}}$$

$$= \frac{\$35\ 000}{\$10\ 000}$$

Cash Flow Cover – 2025	*3.5* **times**

b

Explanation	*Improved:*
	the business has more Net Cash Flows from Operations available to meet
	less average current liabilities. It is more able to meet its average current
	liabilities using Net Cash Flows from Operations.

c

Explanation	*Although Net Cash Flows from Operations has decreased (by just over 10%),*
	average current liabilities has decreased by proportionately more (23%).
	There is less Operating Cash but even less current liabilities to meet with that
	cash.

d

Information 1	*Net Cash Flows from Investing Activities/*
Information 2	*Net Cash Flows from Financing Activities / Bank Balance at start/end*

e

Explanation	*The business must be able to generate enough cash from its day-to-day*
	trading operations otherwise it will be unable to meet its obligations
	without contributions from the owner, loans, or the sale of non-current assets,
	none of which can occur indefinitely.

Exercise 19.7 Level of liquidity

a

Explanation	*The Working Capital Ratio includes Inventory and Prepaid Expenses*
	that will increase the value of current assets
	and can be counted as sources of liquid funds
	in order to meet current liabilities.

b

Explanation	*The Working Capital Ratio is too high,*
	which means it may have current assets that are idle / unproductive such as
	Bank that is earning only a low rate of interest.
	Inventory that is not selling / Accounts Receivable that are not paying /

c

Explanation	*The owner can assess individual current assets and current liabilities,*
	to inform decision making. For example
	whether Bank o/draft is actually a source of cash / how much cash can be
	generated from inventory / Receipts from Accounts Receivable

d

Discussion	*With Quick Asset Ratio < 1:1, it may be difficult to meet immediate debts as*
	quick assets are insufficient to meet quick liabilities.
	However,
	Working Capital Ratio > 1:1 indicates that there may be inventory on hand:
	if this can be sold (and the cash collected from Accounts Receivable) quickly
	enough to meet Accounts Payable' terms, it may be able to generate cash
	in time to meet its short-term debts as they fall due.
	CFC is high enough to pay CL.

e

Information	*Inventory on hand / Bank overdraft limit / ITO / ARTO*
Justification	*Can be used to assess possible cash from sales / Indicates extra cash*
	available / Indicates speed of sales/ collections from Accounts Receivable

Exercise 19.8 Orlando's Blooms

a

Measures	*the average number of days a firm takes to sell its inventory /*
	convert its inventory into sales.

b

Calculation

$$ITO = \frac{\textit{Average Inventory}}{\textit{Cost of Goods Sold}} \times 365$$

$$= \frac{\$8\ 000}{\$195\ 000} \times 365$$

Inventory Turnover | *15* **days**

c

Reason 1	*It is slower than the budgeted Inventory Turnover (of 4 days).*
Reason 2	*The nature of the inventory – flowers would wilt and die in 15 days.*

d

Explanation	*The business is not generating sales fast enough, so:*
	profit will be reduced as revenue is not earned
	liquidity will be reduced as cash is not generated
	from Sales or Receipts from Accounts Receivable.

e

Action	*Reduce the level of inventory on hand*
	(by reducing orders, purchasing less more often, Just in Time ordering).

Exercise 19.9 Inventory Turnover

a

Explanation	*ITO is faster: on average it takes fewer days to turn inventory into sales.*
	This should be beneficial for both profitability in terms of higher Sales revenue
	and liquidity in terms of higher cash inflows from Cash Sales
	and Receipts from Accounts Receivable.

b

Explanation	*Inventory will have to be ordered very frequently, meaning higher delivery*
	charges and/or the loss of discounts for bulk purchases.
	Inventory may run out, meaning sales (and profits) are lost as customers go
	elsewhere / It may indicate SP is too low, meaning less Gross Profit

c

Explanation	*Higher selling prices are likely to lead to a slower Inventory Turnover*
	as customers may be unwilling to pay higher prices, so sales may decrease.
	Lower selling prices are likely to lead to a faster Inventory Turnover as
	customers may be more willing to purchase inventory, so sales may increase.

d

Limitation	*Inventory Turnover relies on averages*
	– the actual turnover of individual lines may be very different to the average.

e

Explanation	*Inventory cards can be used to identify fast-moving and slow-moving lines,*
	so that steps can be taken to increase the speed at which they sell,
	or shift to faster moving items.

Exercise 19.10 Accounts Receivable Turnover

a

Measures	*the average number of days a firm takes to receive cash from its Accounts*
	Receivable.

b

Calculation

$$DTO = \frac{\text{Average Accounts Receivable}}{\text{Credit Sales}} \times 365$$

$$= \frac{\$6\ 000}{\$45\ 000} \times 365$$

Accounts Receivable Turnover	*49* **days**

c

Satisfactory / Unsatisfactory	*Unsatisfactory*
Justification	*It is greater than the credit terms offered to customers (40 days),*
	i.e. Accounts Receivable are taking too long to pay.

d

Strategy 1	*Conduct extensive credit checks before granting credit*
	Offer discounts for early payment
Strategy 2	*Contact slow-paying Accounts Receivable by phone or letter*
	Threaten legal action

e

Explanation	*The majority of its sales are for cash,*
	and its Inventory Turnover is 21 days,
	which means it should be able to generate cash in time
	to meet its Accounts Payable and other obligations.

Exercise 19.11 Accounts Receivable Turnover and Inventory Turnover

a

Explanation	*It takes 46 days to sell inventory, and a further 25 days to collect cash from*
	Accounts Receivable, meaning it takes 71 days to generate cash, but Accounts
	Payable (suppliers) only allow 60 days. I.e. the firm is not generating cash
	quickly enough to meet its Accounts Payable on time.

b

Fact 1	*Inventory Turnover is worse than it was in 2024.*
Fact 2	*AR TO is lower than the credit terms offered to customers (40 days).*

c

Explanation	*Purchasing inventory means either a decrease in cash (for cash purchases) or*
	an increase in Accounts Payable (for credit purchases);
	it must therefore be sold quickly in order generate cash
	to meet obligations to Accounts Payable and other suppliers.

d

Strategy 1	*Increase advertising*
Strategy 2	*Reduce selling prices*
Strategy 3	*Reduce the level of inventory on hand / change ordering practices*

e

Benefit	*May generate greater sales*
	Receive cash faster from Accounts Receivable
Cost	*Receive less cash*
	Discount expense decreases Net profit

f

Explanation	*Slow-paying Accounts Receivable will be refused credit;*
	meaning only reliable Accounts Receivable – who are likely to pay on time –
	will be extended credit.

Exercise 19.12 Accounts Payable Turnover

a

Measures	*the average number of days a firm takes to pay cash to its Accounts Payable.*

b

Calculation

$$APTO = \frac{\text{Average Accounts Payable}}{\text{Credit Purchases}} \times 365$$

$$= \frac{\$10\ 000}{\$91\ 250} \times 365$$

Accounts Payable Turnover | *40* **days**

c

Reason 1	*It is greater than the credit terms offered by suppliers (30 days).*
Reason 2	*It has increased (from 34 days in 2024).*

d

Consequence 1	*Loss of discount for early payment / Reduction in credit rating*
Consequence 2	*Loss of credit facilities*

e

Discussion	*Retaining cash longer – can be used for other purposes*
	Can leave time to sell inventory and collect cash from Accounts Receivable
	before payments are made
	However
	loss of potential discounts
	negative effect on reputation and credit rating – loss of credit facilities provided
	by suppliers
	Ethically, suppliers cannot make payment as have not received cash
	Financial pressure on supplier and rest of economy.

Exercise 19.13 Inventory Turnover, Accounts Receivable Turnover and Accounts Payable Turnover

a

Reason 1	*Greater advertising / lower selling prices / inventory that is in high demand*
Reason 2	*Lower inventory on hand (JIT ordering / smaller, more frequent purchases*

b

Strategy 1	*Contact by phone or letter to remind Accounts Receivable to pay*
Strategy 2	*Threat of loss of credit facilities / Legal action*

c

Explanation	*Much slower Accounts Receivable Turnover*
	means more days to collect cash from Accounts Receivable, so the business
	does not have cash fast enough to meet Payments to Accounts Payable on
	time, leading to an increase in Accounts Payable Turnover

d

Indicator	*Working Capital Ratio / Quick Asset Ratio*
Explanation	*If it has sufficient liquid reserves –*
	particularly in the form of cash in the bank or an overdraft –
	it will be able to meet its short-term obligations as they fall due.

Exercise 19.14 Analysing liquidity

a

Information 1	*Previous years' ITO / Budgeted ITO / Industry averages for ITO*
Information 2	*Level of Inventory on hand*

b

Discussion	*Working Capital Ratio is greater than 1:1 indicating that current assets are*
	sufficient to meet current liabilities and that liquidity is satisfactory.
	However it could be argued that it is too high
	meaning current assets could be idle: Bank could be earning low interest;
	Accounts Receivable may not be paying; and Inventory may not be selling.
	Quick Asset Ratio is actually below 1:1 indicating that if I cannot be sold fast
	enough the business has insufficient quick assets to meet its quick liabilities.
	Inventory Turnover indicates that inventory is selling more slowly and
	this has negative consequences for liquidity as cash is generated more slowly.
	Even though most sales are on credit, the speed of Inventory Turnover is still
	barely fast enough to meet the terms offered by Accounts Payable.
	Accounts Receivable Turnover is faster (than previous years and the credit
	terms offered to customers) and this may indicate improved management
	and collection techniques.
	However, the time taken to sell inventory and collect cash has increased to
	more than 80 days,
	much longer than the 60 day credit terms offered by suppliers.
	This explains why the Accounts Payable Turnover has slowed over the period,
	but could result in a lower credit rating and even a loss of credit facilities.

c

Action 1	*Increase sales – change prices / advertise / rotate, change inventory mix*
	Decrease inventory on hand – change ordering
Action 2	*Negotiate with Accounts Payable*
	Contribute cash

Exercise 19.15 Analysing profitability and liquidity

a

Indicator 1	*Asset Turnover / Net Profit Margin*
Indicator 2	*Return on Assets (given both ATO and NPM have increased)*

b

	Higher / Lower
Return on Assets	*Higher*
Justification	*Both Asset Turnover and Net Profit Margin have increased*

c

Discussion	*Lower selling prices helped generate increase sales volume,*
	resulting in higher Sales revenue and a higher Asset Turnover.
	It also meant faster Inventory Turnover which improved by 11 days.
	However, the lower mark-up did mean Gross Profit Margin fell
	meaning less of each dollar of sales is retained as Gross Profit.
	Having said that, the increase in Net Profit Margin indicates that the increase
	in Sales was enough to cover Other Expenses.
	(It is also possible that expense control improved.)

d

Discussion	*Faster Inventory Turnover is beneficial for liquidity as cash is generated faster*
	and this might explain why the Working Capital Ratio has fallen.
	Working Capital Ratio is still satisfactory as it is above 1:1 which means the
	business can meet its short-term debts as they fall due, but Quick Asset Ratio
	of less than 1:1 indicates this is only true if Inventory is sold quickly enough.
	Accounts Receivable Turnover has slowed and cash is still collected after
	the credit terms offered to customers meaning collection techniques need to
	improve. Taken together with the Inventory Turnover, the cash cycle is 157
	days – too slow to meet the credit terms offered by suppliers and this could
	mean a loss of credit facilities.
	The fact that Accounts Payable Turnover has actually decreased means the
	business has used other funds, maybe by running down a large cash balance
	or by making a cash contribution.
	However, neither of these strategies is sustainable over time.

e

Action 1	*Improve ARTO – credit checks / / offer discounts / reminder calls*
	Capital contribution / Loans to purchase non-current assets
Action 2	*Reduce drawings / defer loan payments*

