VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Victorian Certificate of Education
Year

ACCOUNTING

Written examination

Day Date

Reading time: *. to *.** (15 minutes)**
Writing time: *. to *.** (2 hours)**

QUESTION BOOK

Structure of book

Number of questions	*Number of questions to be answered*	*Number of marks*
11	11	100

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or correction fluid/tape.

Materials supplied
- Question book of 14 pages
- Answer book of 19 pages

Instructions
- Write your **student number** in the space provided on the front cover of the answer book.
- Answer all questions in the answer book.
- All written responses must be in English.

At the end of the examination
- You may keep this question book.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

May 2019

Question 1 (17 marks)

Harry operates his store, Fair to You, in Northside. The business specialises in selling jewellery produced overseas by businesses that pay fair wages. Fair to You uses the First In, First Out (FIFO) inventory cost assignment method. Harry has only a small number of suppliers and operates an individual account for each supplier.

Harry has provided the following source documents.

Rosie's Jewellery **18 Bracelet St** **Melbourne Vic 3000**		**Invoice:** RR99 **Date:** 1 Dec. 2019 **Credit terms:** 2/7, n/30	
Charge to: Fair to You			
Product details	**Qty**	**Unit price ($)**	**Total ($)**
Bracelets – blue	100	4	400
Bracelets – orange	100	4	400
Subtotal			800
GST			80
Total			880

Finn's Couriers	**Tax Invoice** **Date:** 1 Dec. 2019 **Receipt:** 118
Sale to: Fair to You	
Details	**$**
Delivery of 200 bracelets	200
GST	20
Total	220

The selling price of each bracelet is $16 (plus GST).

Each bracelet purchased comes in a gift box that costs Rosie's Jewellery $2 (plus GST) per box.

Fair to You is offering all customers the opportunity to have their name engraved on their bracelet for $4 (plus GST) per bracelet.

a. Calculate the cost price of one blue bracelet. 1 mark

b. Record the source documents provided in the General Journal of Fair to You.
Narrations are **not** required. 4 marks

c. Record the purchase of the blue bracelets in the Inventory Card. 1 mark

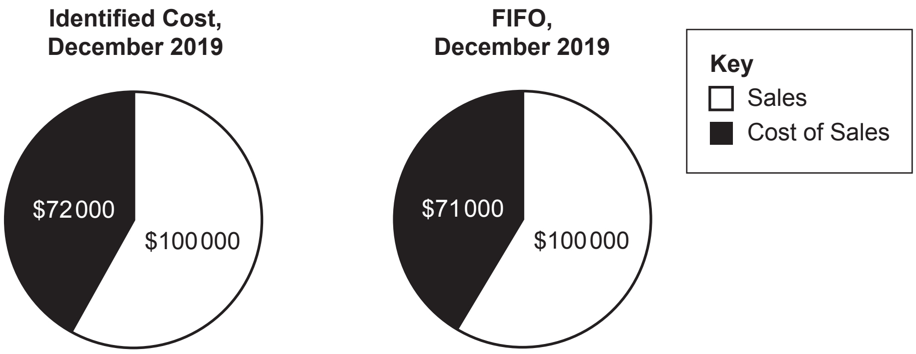
Question 1 – continued

d. Harry had been convinced by the supplier to try the orange bracelets with the shipment of 1 December, but they have not been a success. On 31 December 2019, the selling price of the orange bracelets is reduced to $5 each (plus GST) because Fair to You has not sold any of the orange bracelets. The business will include free engraving on each orange bracelet, which normally costs the business $2 per bracelet.

Record the journal entry required for the orange bracelets on 31 December 2019 in the General Journal of Fair to You (Memo 18).

A narration is required. 3 marks

e. During December, Harry trialled using the Identified Cost inventory cost assignment method in addition to the FIFO inventory cost assignment method. The following graphs were prepared at the end of the month.



Explain how the graphs above can show different results while using the same transactions. 4 marks

f. Harry has been approached by a new supplier who has offered to sell him similar jewellery at around 75% of his current cost price and who has also offered him 60-day payment terms. As Fair to You has been having significant cash flow issues recently, which has made it difficult to pay employees on time, Harry is considering using the new supplier for some of his inventory purchases. As the majority of this business inventory will still come from businesses paying fair wages, he does not believe that he needs to highlight the change in inventory to his customers.

Analyse the ethical considerations of Harry's decision not to inform his customers of the change in inventory. 4 marks

Question 2 (18 marks)

Pip's Plumbing is a plumbing supplies store that has recently set up an online store. In order to prepare for the increase in deliveries, the business decided to dispose of its old delivery van and purchase a new one. The business had purchased its old delivery van on 1 September 2016 for \$20 000 (plus GST). The new delivery van was purchased from Smooth Cars on 31 December 2019 for \$46 200 (plus GST). The purchase price included delivery of \$1 000 (plus GST) and 12 months' insurance of \$1 200 (plus GST).

Smooth Cars agreed to a trade-in of \$8 000 for the old delivery van, with the balance being paid from a loan received from TNS Bank.

Pip's Plumbing prepares its accounting reports annually on 31 December and depreciates its assets at 20% per annum using the reducing balance method.

a. Prepare the General Journal entries required on 31 December 2019.
Narrations are **not** required. 10 marks

b. Explain the effect on the accounting equation if Pip's Plumbing had not depreciated the old delivery van for the year ended 31 December 2019. 3 marks

c. Explain why Pip's Plumbing would report a loss on the disposal of the delivery van. 2 marks

d. Referring to a qualitative characteristic, explain why Pip's Plumbing depreciates the delivery van. 3 marks

Question 3 (15 marks)

AQ Sportz sells a wide range of equipment for water sports. Inventory is sold for both cash and credit. The following information relates to Accounts Receivable for April 2019:

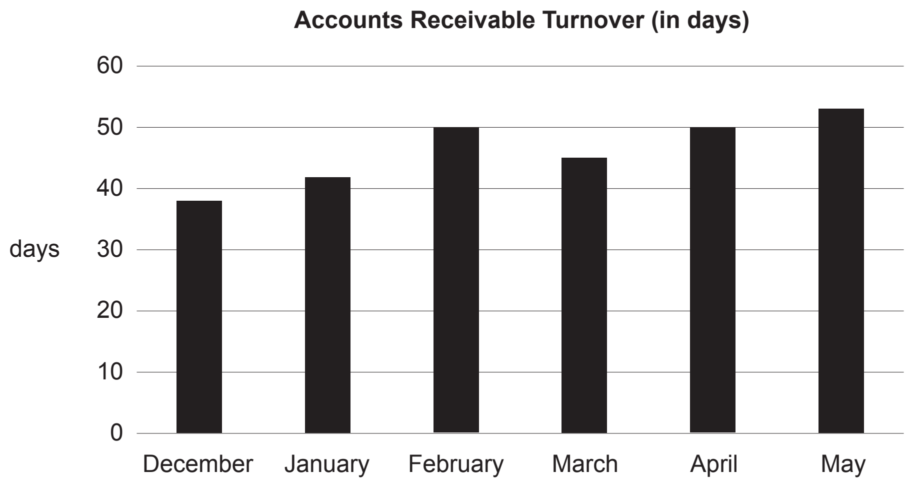
- The Accounts Receivable balance as at 1 April 2019 was $7 800.
- The Accounts Receivable balance as at 30 April 2019 was $9 500.
- The Receipts from Accounts Receivable were $13 400.
- The Discount Expense was $200.
- The Discount Revenue was $140.
- The Allowance for Doubtful Debts had a balance of $1 400 on 1 April 2019.
- $1 200 was written off as Bad Debts in April.
- The Allowance for Doubtful Debts is 5% of net credit sales.

a. Using the information above, reconstruct the Accounts Receivable ledger account and determine the Credit Sales for April 2019. 6 marks

b. Record the General Journal entry required to prepare the Allowance for Doubtful Debts for May 2019 (Memo 67).

A narration is **not** required. 3 marks

c. The following graph shows the Accounts Receivable Turnover (in days) for AQ Sportz over the six-month period from December 2018 to May 2019.



Describe the trend in the Accounts Receivable Turnover for AQ Sportz over the six-month period from December 2018 to May 2019. 2 marks

d. AQ Sportz is considering the following strategies to improve its Accounts Receivable Turnover:

- **Strategy 1** – Sending regular automated payment reminders to customers

  The accounting software the business currently uses allows it to pay a fee to have automated reminders sent out to customers regularly. This would cost $240 per year and is predicted to lead to an improvement of 10 days per month in the Accounts Receivable Turnover.

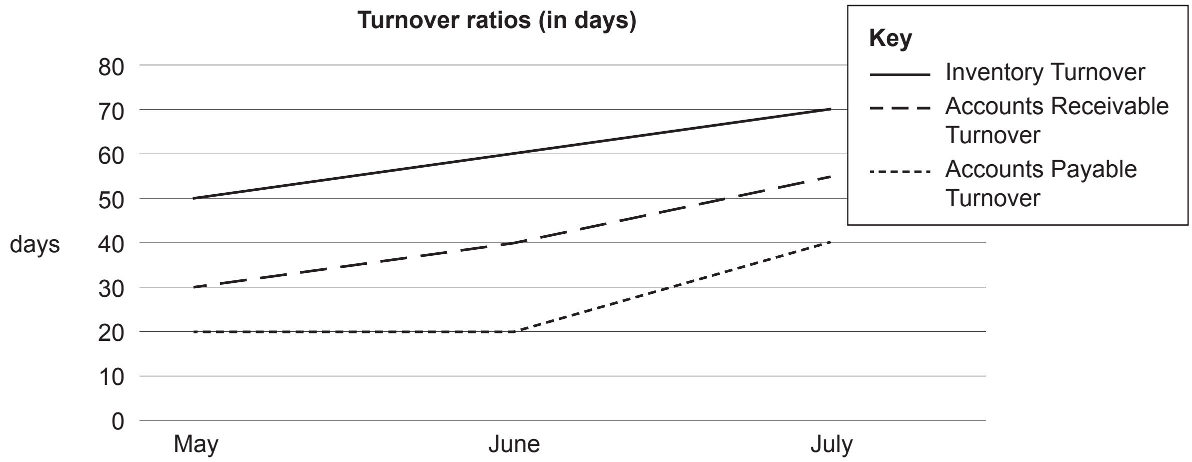
- **Strategy 2** – Implementing a system of credit checks for all new customers who want credit

  This is likely to increase office expenses by $1 200 per year and it is likely to decrease Bad Debts by 25%, while improving the Accounts Receivable Turnover by 10%.

Which strategy should AQ Sportz adopt? Justify your answer. 4 marks

Question 4 (9 marks)

Walter's Wheels sells bicycle parts. At the beginning of May 2019, it decided to sell bicycle parts on credit as well as for cash. Accounts receivable are expected to pay within 30 days. Anticipated credit sales in May were $100 000, but the actual credit sales were only 60% of that amount. This trend continued for the months of June and July, as shown in the graph below.



a. State the trend in each of the three financial indicators shown in the graph. 3 marks

b. Explain how performance in collecting outstanding debts and in Inventory Turnover may have an impact on profitability and liquidity. 4 marks

c. Explain how the trend in Accounts Payable Turnover may be linked to the trend in the other two financial indicators. 2 marks

Question 5 (5 marks)

Flex Furniture sells desks to schools. Northwest High School placed an order for 150 desks at $60 each (plus GST). The desks were sold at a 50% mark-up.

The following transactions took place in November 2019:

- 21 November – Northwest High School paid a deposit of $825 (EFT 86).
- 24 November – 100 desks were delivered to Northwest High School (Invoice FF6).

Prepare the General Journal entries required to record these transactions.

Narrations are **not** required.

Question 6 (6 marks)

Swim Up sells swimwear and accessories in Australia and overseas. The business plans to carry out an analysis of reports prepared recently.

The business discloses the following:

- The business reports once a year in June.
- The FIFO inventory cost assignment method is used to determine inventory on hand; the business is aware that using the Identified Cost inventory cost assignment method would result in a different amount.
- It is a relatively small business.
- The business has recently commenced selling inventory on credit. It does not offer discounts, believing it is enough to simply offer good service.
- A number of non-current assets are new. The business uses the reducing balance method of depreciation.
- The business has recently moved to a new location.
- The Australian dollar has fluctuated in value recently.

Discuss the difficulties Swim Up may experience when measuring its performance against past performance and budgets, and against other businesses in the same industry.

Question 7 (4 marks)

A Balance Sheet for a business is shown below.

Balance Sheet as at 31 May 2019

Assets		
Bank	3 100	
Accounts Receivable	18 000	
Inventory	24 000	
Machinery	60 000	
Total Assets		105 100
Liabilities		
Loan		45 000
Owner's Equity		
Capital		60 100
Total Equities		105 100

Additional information

- There may be difficulty in collecting some debts.
- Inventory is an estimate based on current market values.
- The machinery is two years old.
- The loan was taken out several years ago.

Apply the qualitative characteristic of faithful representation to the Balance Sheet and justify how **two** items in the report may fail to reach this standard.

Question 8 (7 marks)

TMU Traders is unsure of the state of liquidity of its business. The operating section of the Budgeted Cash Flow Statement for the month ending 31 May 2019 needs to be prepared. However, it does not have access to cash records and can only provide the following details:

- Inventory is sold for both cash and credit. Total sales for May 2019 are expected to be \$60 000 (plus GST), of which 60% are expected to be cash. 40% of credit sales are paid in the same month as the sale and the remainder is paid in the following month. At the end of April, Accounts Receivable had a balance of \$15 000.
- Drawings for May are anticipated to be \$9 000, of which \$3 000 will be for cash.
- An insurance policy is due in May for \$1 200 (plus GST) cash.
- Other expenses are estimated to be \$16 200 (plus GST), including depreciation of \$3 400.
- A loan for \$4 200 was taken out in February 2019. It is to be repaid in equal instalments over six months commencing March 2019. The interest of \$210 is due in August.
- Accounts Payable is anticipated to increase by \$2 000 from 30 April to 31 May after credit purchases of \$30 000. Cost of Sales is 50% of sales.
- On 30 April the GST balance was \$6 100. This will be settled in May.

Prepare the operating section of the Budgeted Cash Flow Statement for the month ending 31 May 2019.

Question 9 (7 marks)

A business provides an extract of its GST Clearing ledger account. Note that no non-current assets were purchased by the business during this time.

GST Clearing (extract)

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Jan. 2	Bank	5 630	Jan. 1	Balance	2 300
3	Accounts Payable	200	5	Accounts Receivable	7 650

a. Describe the transactions that have led to each of the entries in the extract of the GST Clearing ledger account. 4 marks

b. Using the data in the extract of the GST Clearing ledger account, explain why this business should be concerned about its liquidity after the start of the month if this is typical of how it conducts its operations. 3 marks

Question 10 (5 marks)

Dapper Dress-Ups sells costumes and accessories. The following information has been provided for June 2019:

• Accounts Payable	$19 000
• Accounts Receivable	$31 000
• Advertising Expense	$30 000
• Cost of Sales	$100 000
• Discount Expense	$320
• Discount Revenue	$400
• Inventory Control	$110 000
• Profit on Sale of Equipment	$1 200
• Sales	$200 000
• Inventory Gain	$500
• Wages	$50 000

Using the information provided, prepare the closing entries in the General Journal to close all revenue and expense accounts and to close the Profit and Loss Summary account.

Narrations are **not** required.

Question 11 (7 marks)

To assist in organising the reports for a business, the owner has prepared the ledger accounts.

Adjusted Trial Balance as at 30 June 2019

Account	Debit	Credit
Accounts Payable		2 400
Accounts Receivable	5 820	
Advertising	3 600	
Bank		4 500
Capital		18 150
Cost of Sales	1 640	
GST Clearing		1 630
Inventory	17 300	
Loan ZYX Bank		12 000
Prepaid Rent (3 months)	600	
Sales		3 280
Shop Fittings	10 000	
Wages	3 000	
	41 960	**41 960**

Throughout July, the following transactions occurred:

- 5 July Cash sales plus GST $3 400
- 25 July Credit sales plus GST $3 700
- 9 July Cash purchases of inventory plus GST $5 300
- 10 July Credit purchases of inventory plus GST $7 200

Additional information

- 15 July – The business received half of the amount owing from June from Accounts Receivable.
- 31 July – The business paid an account within the terms offered and received a discount of $920 (including discount).
- The business applies a 100% mark-up on cost to inventory.

Use the information above to complete the following ledger accounts for July:

- Inventory
- Accounts Payable
- Prepaid Rent Expense

END OF QUESTION BOOK

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SUPERVISOR TO ATTACH PROCESSING LABEL HERE

Letter

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ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all questions in the spaces provided in this book.
- Write your **student number** in the space provided above on this page.
- Refer to **Instructions** on the front cover of the question book.

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May 2019

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Question 1 (17 marks)

a. 1 mark

Working space

$4 - Unit price including box
$1 - Delivery

Cost price of one blue bracelet $ 5

b. 4 marks

Fair to You

General Journal

Date 2019	Details	Debit	Credit
1 Dec	Inventory	800	
	GST clearing	80	
	Accounts Payable - Rosie's Jewelery		880
1 Dec	Inventory	200	
	GST clearing	20	
	Bank		220

c. 1 mark

Inventory Card

Item: Blue bracelet **Cost Assignment Method: FIFO**
Supplier: Rosie's Jewellery

Date 2019	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Dec.	Balance							20 4	4 5	80 20
1 Dec	INV RR99	100	4	400				20	4	
1 Dec	Rec. 118	100	1	100				104	5	600

Question 1 – continued

d. 3 marks

Working space

NRV = $5 - $2 = $3

$2 less than cost price ($5) therefore: $2 x 100 = $200 write down

Fair to You
General Journal

Date 2019	Details	Debit	Credit
31 Dec	Inventory write down	200	
	Inventory		200
	Adjusting entry for 100 orange bracelets inventory write down of $ 2 (memo 18)		

e. 4 marks

Explanation

When calculating cost of sales, Harry could use identified cost method which specifically identifies the cost of the inventory sold. The cost assigned is not based on an assumption. So Cost of Sales will be accurate. FIFO method of assigning costs applies the assumption that the inventory that was purchased first are the inventory that are sold first. This means that cost assigned to the inventory sold are the lower prices and the inventory on hand are assigned costs that are the most current.
As noted in the both graphs the sales value is the same for the bracelets but the costs of the bracelets for those sales vary. The cost of sales for FIFO is $71,000 compared with $72,000 when identified cost is applied. This difference could be due to the supplier increasing prices so that inventory purchased later is higher. So cost of sales when FIFO assumption applied would be based based on the lower costs for the inventory purchased first and the inventory on hand would be assigned the higher cost prices. Whereas when identified cost is applied, each bracelet upon sale will have the cost allocated automatically and the actual cost of each bracelet will be accounted for.

f. 4 marks

Analysis

Financial: Harry was presented with information from a new supplier that would make the cost of sales significantly lower and if the bracelets were sold at the same price this would result in a higher gross profit per bracelet. The new supplier's credit terms at 60 days is excellent and provides enough time for sales to be made before the account would need to be paid. This will help Harry save money on inventory so that the employees can be paid on time. Businesses have the right to change suppliers in order to reduce costs.

Reputation: Harry is considering this option for some of his inventory. It is unclear if the inventory from the new supplier is of the same quality as the current supplier. If it is of an inferior quality, Harry should disclose this to customers otherwise this would impact negatively on his reputation as a socially responsible store.

Recommendation: Harry should do more research into the new bracelets before committing to new supplier as well as identifying a strategy to notify potential customers otherwise non-disclusure could result in loss of repeat customers.

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Question 2 (18 marks)

a. 10 marks

Working space	2016: 4 months - $20,000 x 20% = $4,000 = $1,333 2017: $20,000 - $1,333 = $18667 x 20% = $3,733 2018: $18,667 - $3,733 = $14,934 x 20% = $2,987 2019: $14,934 - $2,987 = $11,947 x 20% = $2389 Accumulated Depreciation = $10,442 Carrying Value = $20,000 - $10,442 = $9,558 Trade in $8,000 less Carrying Value $9,558 = Loss $1,558

Pip's Plumbing

General Journal

Date 2019	**Details**	**Debit**	**Credit**
31 Dec	Disposal of Delivery Van	20 000	
	Delivery Van		20 000
	Accumulated Depreciation of Delivery Van	10 442	
	Disposal of Delivery Van		10 442
	Delivery Van	8 000	
	Disposal of Delivery Van		8 000
	Loss on Disposal of Delivery Van	1 558	
	Disposal of Delivery Van		1 558
	Bank	42 820	
	Loan - TSN Bank		42 820
	Delivery Van	37 000	
	GST Clearing	4 620	
	Prepaid Insurance	1 200	
	Cash at Bank		42 820

Delivery Van $46,200 + $4,620 GST = $50 820 - Trade in $8 000 = $42, 820

Question 2 – continued

b. 3 marks

Explanation
Assets: Carrying value of Delivery Van would be overstated by $2,389 as accumulated depreciation
would not include $2,389 so the carnying value of the asset would be overstated.
Liabilities: No effect on liabilities
Owner's Equity: This would be overstated b $2,389 because depreciation expenses would not have
been included, so profit would be overstated.

c. 2 marks

Explanation
Pip's plumbing received a loss on disposal of the Delivery Van as the trade in was less than the
carrying value of the delivery van. This can be due to the under depreciation of the asset. This can be
as a result of over estimating the residual value of the delivery van and/or estimated useful life.

d. 3 marks

Qualitative characteristic	Relevance
Explanation	In order to calculate an accurate profit figure, all expenses incurred for the relevant period
	should be matched against all revenue earned. It is important to write off that part of the asset that has
	been consumed for the relevant period and matched against the revenue it has helped to produce so
	that an accurate profit figure can be calculated which will aid decision making.

Question 3 (15 marks)

a. 6 marks

Accounts Receivable

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
1 Apr	Balance	7 800	30 April	Bank	13 400
30 Apr	Sales/GT clearing	16 620		Discount Expense	200
				Allowance for Doubtful Debts/GST Clearing	1 320
				Balance	9500
		24 300			24 300
1 May		9 500			

\$16 620 / 11 = \$1 511 GST \$16 620 - \$1 511 = \$15 109	**Credit Sales for April 2019**	**\$** 15 109

b. 3 marks

Working space	5% \$15,109 = \$756 Allowance for doubtful debts at start: \$1400- \$1200 debt written off = \$200 Increase Allowance by \$556 to cover allowance of 5%

AQ Sportz
General Journal

Date 2019	Details	Debit	Credit
30 April	Bad Debts	556	
	Allowance for Doubtful Debts		556

c. 2 marks

Description
Accounts Receivable Turnover for AQ Sports increased gradually each month from December 2018 (38
days) to February 2019 (50 days) and decreased in March 2019 (45 days) and then gradually increased
each month to May 2019 (54 days). This means that on average, AQ Sports takes 16 days longer to
receive cash from credit sales. This suggests that the business is not chasing up its Accounts Receivables
or did not have a tight credit control policy in place in relation to Accounts Receivable.

Question 3 – continued

d. 4 marks

Working space

Strategy 1	Strategy 2
Cost: $240	Cost: $1,200
ARTO: 44 days (54 days less 10 days)	ARTO: 49 days (less 10% 54 - 5.4 = 48.6)
Bad Debts: $1,200	Bad Debts: $900 (25 % of $1,200 = $300)

Strategy 1

Justification

If AQ Sports adopts strategy 1, the improvement in ARTO will improve from 54 days to 44 days at a cost of $240 per year, compared with strategy 2 which would only improve ARTO by 5 days at a far greater cost of $1,200 and saving $300 for bad debts - so overall cost of $900.

Strategy 1 will mean less costs overall and quicker cash flow from accounts receivable for AQ Sports.

Question 4 (9 marks)

a. 3 marks

Inventory Turnover has increased over all 3 months indicating inventory is taking longer to sell, 50 days in May, 60 days in June and 70 days in July. Accounts Receivabld as also increased by 30 days in May and they are taking more and more days over the credit terms given in June and July in particular, 40 days in June and around 55 in July. It is June & July that the business is taking longer to pay its Accounts Payable from 20 days in May increasing to 41 days in July which is double the amount of days given by Accounts Payables.

b. 4 marks

Explanation

Inventory Turnover taking longer to sell will mean less sales for the period and hence most likely less profit. Less Sales will mean less cash flow and because it is taking longer to receive cash from Accounts Receivable this will mean the business will struggle to meet its short term liabilities (debts) such as Accounts Payable. It is likely the reason why the business then took double the amount of time to pay its Accounts Payable from 20 days in May to 41 days in July. Accounts Receivable\ taking longer and longer to pay increases the change of bad debts which further impacts both profitability and liquidity.

c. 2 marks

Explanation
If sales decrease and Accounts Receivable take longer to pay means the cash cycle is increased and the
business is waiting longer to receive cash which will not only impact on their ability to pay its
accounts payable on time but will mean the business may be forced to use more of its overdraft to
purchase inventory or may need to negotiate one if it doesn't have an overdraft. Because the business
is taking longer to pay its Accounts Payable, this may affect its ability to obtain additional inventory, or improve its inventory mix, as the business may be denied credit facility, and this could impact on sales.

Question 5 (5 marks)

Flex Furniture

General Journal

Date 2019	**Details**	**Debit**	**Credit**
	Bank	825	
	Unearned Sales Revenue		825
	Unearned Sales Revenue	825	
	Sales		825
	Accounts Receivable - North West High School	5775	
	Sales		5175
	GST Clearing		600
	Cost of Sales	4 000	
	Inventory		4 000

Question 6 (6 marks)

Discussion There are many issues that could be discussed in this question.

Interim reports would give timely information and allow corrective action to be taken if the business was struggling with profits and cash flow. Selling inventory on credit will mean slower cash flow into the business, not offering discounts could mean the business will struggle with liquidity because it cannot entice Accounts Receivables to pay early or on time.

If similar businesses use Identified Cost, different COGS and profit figures would be calculated making it difficult to compare.

Using Reducing Balance Method to depreciate all assets maybe incorrect or not faithfully represent the correct amount of depreciation that should be written off against the revenue earning capacity of all assets.

This would mean that reports would not include the relevant amount of cost consumed for each asset and this would impact the carrying value in the Balance Sheet, making it difficult to compare with businesses who match revenue earning capacity of assets with the method of depreciation chosen.

Moving to a new location will impact on sales, profits and, if the location is different, the traffic flow difference may mean profits will be affected for first year. A new location will also mean the business will need to be developing new reputation, new clientele etc. So again, comparisons with previous years may be irrelevant.

The Australian dollar would impact the business both positively and negatively. Swimwear purchased by the business from an overseas supplier could be more expensive when the dollar is low and cheaper when the dollar is higher. When the cost price of overseas purchases are cheaper, there could be an increase in sales. This will need to be factored in when analysing the changes in sales from previous years. This will make it difficult to make comparisons from one year to the next.

Finding businesses that are the same size, in a similar location, and that are new like this one may be difficult to find and compare with.

Question 7 (4 marks)

Item 1	Accounts Receivable
Accounts Receivable may not be a true reflection of the amount of Accounts Receivables if there is	
likely to be some difficulty in collecting all debts. Businesses should estimate a percentage of how	
much they think is likely not to be received and an Allowance for Doubtful Debts created and then	
deducted indirectly in the Balance Sheet to show a more faithful representation of the AR figure.	
Item 2	Accumulated Deprecation
Machinery recorded at cost may not reflect a faithful representation of the carrying value of this asset at	
31 May 2019. If the machinery has been used over a number of years then the asset should reflect the	
carrying at the May 31, 2019.	

Question 8 (7 marks)

Working space

60,000 x 60% = $36,000 cash sales
60,000 - 36,000 = $24,000 credit sales
of this amount of $24,000 credit sales, 40% is paid in the same month as the sale as follows:
$24,000 + 2400 (GST) x 40% = $10,560 will be paid in May PLUS $15,000 owing from April will also be paid.

TMU Traders
Budgeted Cash Flow Statement (extract) for the month ending 31 May 2019

	$	$
Budgeted Cash Flows from Operating Activities		
Cash Sales	36 000	
GST received	3 600	
Receipts from Accounts Receivable	25,560	65160
Insurance	(1 200)	
GST Settlement	(6 100)	
Payments to Accounts Payable Other Expenses	(31 000) (12 800)	
GST Paid	(1 400)	(21 500)
Net Cash from Operating Activities		$43660

Accounts Payable

Bank	*?*	Opening Balance	***x***
Closing Balance	x+2,000	*Inventory/ GST Clearing*	*33,000*
	33,000		33,000

Amount paid to Accounts Payable is $31,000 irrespective of what the opening and closing balances are because the closing balance will always be $2,000 more than the opening balance no matter what the actual opening balance figure is.

Question 9 (7 marks)

a. 4 marks

1 January
This is the amount owed to the ATO of $2 300 a result of more GST received than GST paid in the previous period
2 January
GST paid on cash purchases of goods or services of $5 630.
3 January
Purchase of inventory or service on credit for $2 000, the GST of $200 which reduces obligation to ATO
5 January
This is the GST charged on Credit Sales of $76 500, $7650 GST increases obligation to ATO

b. 3 marks

Explanation

The business will have a GST of $4,120, if the opening amount of $2300 is not paid in January. Businesses should pay off the amount owing from the previous period straight away, otherwise the debt owing to the ATO will continue to increase and the business may then struggle to pay what is owed to the ATO.

The ATO does charge interest if the GST is not paid when it is due.

Also looking at the GST account there is no GST received on cash sales, which suggests the business is only selling on credit, so has credit sales and is paying for goods and services for cash. The issue here is that if the accounts receivable do not pay within the credit terms given by the business, and the business is paying for everything in cash, then the business is most likely using an overdraft which is costly in terms of interest, and this will also put a strain on liquidity.

Question 10 (5 marks)

Dapper Dress-Ups

General Journal

Date 2019	**Details**	**Debit**	**Credit**
30 June	Sales	200 000	
	Inventory Gain	500	
	Disount Reveneue	400	
	Profit on sale of Equipment	1 200	
	Profit and Loss Summary		202 100
	Profit and Loss Summary	180 320	
	Advertising Expense		30 000
	Cost of Sales		100 000
	Discount Expense		320
	Wages		50 000
	Profit and Loss Summary	21 780	
	Captial		21 780

Question 11 (7 marks)

Inventory

Date 2019	Details	Amount	Date 2019	Details	Amount
Jul 1	Balance	17 300	Jul 5	Cost of Sales	1 700
9	Bank	5 300	25	Cost of Sales	1 850
10	Accounts Payable	7 200	31	Balance	26 250
		29 800			29 800
Aug 1	Balance	26 250			

Accounts Payable

Date 2019	Details	Amount	Date 2019	Details	Amount
Jul 31	Bank/Discount Revenue	920	Jul 1	Balance	2 400
	Balance	9 400	10	Inventory/GST clearing	7 920
		10 320			10 320
			Aug 1	Balance	9 400

Prepaid Rent Expense

Date 2019	Details	Amount	Date 2019	Details	Amount
Jul 1	Balance	600	Jul 31	Rent Expense	200
				Balance	400
		600			600
Aug 1	Balance	400			

END OF ANSWER BOOK