**COMMERCE PRESENTATIONS AND PUBLICATIONS**

**ACCOUNTING ASSESSMENT TASK 2020**

**Unit 3 - Outcome 1B**

**Recording and analysing financial data**

SUGGESTED ANSWERS/SOLUTIONS

**Note to teachers and students**

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

**Question 1 – Peta’s Party Supplies (7 marks)**

1. **Calculate the net realisable value of one ‘Silver’ Christmas tree as at 31 December 2019.**

$90 - $12 = $78

**1 mark**

1. **Record the General Journal entry required in relation to the valuation of the ‘Silver’ Christmas trees on 31 December 2019.**

**A narration is required.**

**3 marks**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 31/12 | Inventory Write Down | 270 |  |
|  | Inventory |  | 270 |
|  | 10 ‘Silver’ Christmas Trees written down to NRV (Memo 204). | | |

**1 mark –** per line entry in General Journal

**1 mark –** narration including quantity, type of item, description of entry and memo

1. **Referring to one qualitative characteristic, explain an ethical implication of Peta’s Party Supplies not recording the above General Journal entry on 31 December 2019.**

**3 marks**

According to the qualitative characteristic of faithful representation **(1 mark)**, an adjustment to the value of Inventory to be reported on the Balance Sheet as at 31 December 2019 is required to ensure that the financial statements represent real economic events and that the information reported is complete, free from error and without bias. **(1 mark)**

As Peta’s Party Supplies realises that they will not be able to sell the 10 ‘Silver’ Christmas trees for more than its cost price, by not recording the inventory write down, the value of inventory reported on the Balance Sheet would be overstated, not complete and could be viewed as an unethical practice undertaken by Peta if Peta’s Party Supplies was to use the inaccurate and misleading financial statements as the basis for a loan application or fulfilling existing loan requirements. **(1 mark)**

**Question 2 – Harry’s Hats (6 marks)**

1. **Prepare the General Journal entry required to record Invoice 1278. A narration is not required.**

**General Journal**

**3 marks**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 17/04 | Inventory | 6 325 |  |
|  | Cartage Inwards | 310 |  |
|  | GST Clearing | 581 |  |
|  | Accounts Payable – Adani |  | 7 216 |

**1 mark –** Inventory and Cartage Inwards entries

**1 mark –** GST Clearing

**1 mark –** Accounts Payable – Adani

1. **Discuss whether Harry should treat the coloured ribbon and fake flower costs as a product cost.**

**3 marks**

Suggested Approach

**1 mark –** coloured ribbon and fake flower costs are costs in getting the hats ready for sale

**1 mark –** coloured ribbon and fake flower costs can be directly allocated to each hat

**1 mark –** coloured ribbon and fake flower costs are an insignificant value

***Sample Answer:*** *The coloured ribbon and fake flower costs could be treated as a product cost as they are costs incurred in getting the hats into a condition ready for sale and can be directly allocated to each hat on a logical basis of $1.95 per hat. However, it could be argued that when expressed as a percentage of the invoice cost price of the hats, the coloured ribbon and fake flower costs are of an insignificant value and are irrelevant in making a difference in determining the selling price of the hats.*

**Question 3 – Lena’s Lighting (7 marks)**

1. **Record the transactions in the ‘Sunny’ light inventory card for June 2020.**

**4 marks**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ITEM:** ‘Sunny’ lights **Cost method:** First In, First Out  **SUPPLIER:** Kapoor Electrics | | | | | | | | | | |
|  | | **IN** | | | **OUT** | | | **BALANCE** | | |
| Date | Document | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total |
| 01/06 | Balance |  |  |  |  |  |  | 5 | 80 | 400 |
| 10/06 | Inv.886 | 10 | 90 | 900 |  |  |  | 5 | 80 | 400 |
|  |  |  |  |  |  |  |  | 10 | 90 | 900 |
| 17/06 | Inv.241 |  |  |  | 5 | 80 | 400 |  |  |  |
|  |  |  |  |  | 1 | 90 | 90 | 9 | 90 | 810 |
| 27/06 | C/N 11 | 1 | 80 | 80 |  |  |  | 1 | 80 | 80 |
|  |  | 1 | 90 | 90 |  |  |  | 10 | 90 | 900 |
| 30/06 | Memo 23 | 1 | 90 | 90 |  |  |  | 1 | 80 | 80 |
|  |  |  |  |  |  |  |  | 11 | 90 | 990 |

**1 mark –** per date entry

1. **Explain how an inventory gain satisfies the definition of revenue.**

**2 marks**

An inventory gain satisfies the definition of revenue as it increases assets (Inventory)

**(1 mark)** that results in increases in owner’s equity (higher profit). **(1 mark)**

1. **Apart from identifying an inventory loss or gain, state one benefit of using inventory cards.**

**1 mark**

* help with the re-ordering of inventory
* identifies fast and slow moving lines of inventory
* provides an estimate of inventory balances at any point in time

**Question 4 – Oliver’s Ovens (4 marks)**

1. **Justify why Oliver’s Ovens would use the Identified Cost method in preference to the First In, First Out cost assignment method.**

**2 marks**

As Oliver’s Ovens sells ovens, (which will tend to be a smaller number of higher priced inventory items and can be more easily specifically identified) the Identified Cost method may be more appropriate as Oliver would be able to record the actual cost of each inventory item making the profit calculation more accurate. **(1 mark)**

Whereas, the First In, First Out method is based on an assumption that the cost prices are allocated in the order in which the items are purchased making the profit calculation not as accurate as the Identified Cost method. **(1 mark)**

1. **Explain the effect on the Gross Profit reported in the Income Statement for the month ended 30 June 2020 if Oliver’s Ovens used the First In, First Out cost assignment method instead of the Identified Cost method.**

**2 marks**

In times of rising supplier’s prices, if the business uses the First In, First Out cost assignment method instead of the Identified Cost assignment method, Gross Profit is more likely to be higher as Cost of Sales would be more likely to be lower. **(1 mark)**

The First In, First Out cost assignment method allocates the older, cheaper unit costs first whereas the Identified Cost assignment method allocates the actual cost price of the item sold which could be the recently purchased more expense units or the older, cheaper unit costs depending on which unit is actually sold. **(1 mark)**

**Question 5 – Barbara’s Books (6 marks)**

1. **State the trend in the Accounts Receivable Turnover.**

Slower

1. **Discuss one strategy Barbara could introduce to improve the Inventory Turnover.**

**1 mark**

Suggested Approach

**1 mark –** identification of strategy

**1 mark –** advantage of strategy

**1 mark –** disadvantage of strategy

**3 marks**

Strategies include increasing Advertising, reducing selling prices, buying inventory in smaller quanities or physically relocating inventory within the store.

**Sample Answer:** One strategy Barbara could introduce to improve the Inventory Turnover would be to increase the amount spent on advertising.

An advantage of increasing the amount spent on advertising is that it is likely to attract more customers leading to an increase in the number of books sold.

However, a disadvantage of increasing the amount spent on advertising is that the amount spent could be greater than the benefit achieved which would decrease the profit.

1. **Discuss the effect of the trend in the Accounts Payable Turnover on the liquidity of Barbara’s Books.**

**2 marks**

The trend in the Accounts Payable Turnover indicates that the liquidity of Barbara’s Books is improving as the outstanding Accounts Payable balances are being paid faster. **(1 mark)**

However, this may also have a negative impact on liquidity as the Accounts Payable balances are being paid well within the credit terms of 21 days without taking advantage of the discount terms which may make it difficult to repay other short-term debts as they fall due. **(1 mark)**

**END OF SUGGESTED SOLUTIONS**