2017 VCE Accounting (NHT) examination report

Specific information

This report provides sample answers or an indication of what answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

Question 1a.

Maxi Arts
General Journal (partially completed)

Date 2017	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Jan. 9	Creditors Control	550			
	G Roberts			550	
	GST Clearing		50		
	Stock Control		500		
	Returned art folios – CrN.34				

Question 1b.

Creditors Control

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
Jan. 31	Stock Control/GST Clearing	550	Jan. 1	Balance	40 000
31	Bank/Discount Revenue	37 000	31	Stock Control/GST Clearing	20 790
31	Balance	23 240			
		60 790			60 790
			Feb. 1	Balance	23 240

Question 1c.

Creditor – G Roberts

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
Jan. 9	Stock Control/GST Clearing	550	Jan. 5	Stock Control/ GST Clearing	11 550
11	Bank	11 000			

Question 1d.

Description: Used for cash payments that do not occur frequently and therefore do not have their own column.

Example: Examples could include – loan repayments, GST settlement, buying a non-current asset for cash, drawings.

Question 2

Lux Lamps
General Journal

Date 2017	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Feb. 1	Equipment	4 000			
	Motor Vehicle	26 000			
	GST Clearing	2 600			
	Sundry Creditor – Milton Motors		28 600		
	Capital		4 000		

Question 3

Working space

75 000 = 52 500 + 22 500

Question 3a.

Licorice Likes
Cash Payments Journal

Date 2017	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Wages	Stock Control	Sundries	GST
Apr. 9	Accrued Wages	411	77 500					55 000	
	Wages					22 500			

Question 3b.

General Journal

Date 2017	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Apr. 30	Wages	52 500			
	Accrued Wages		52 500		
Apr. 30	Profit and Loss Summary	75 000			
	Wages		75 000		

Question 3c.

Income Statement

Wages (expenses) would be understated by $52 500.

Net Profit would be overstated by $52 500.

Balance Sheet

Current Liabilities would be understated by $52 500.

Capital would be overstated by $52 500.

Question 4a.

Stock Card

Product: Tech television								**Cost Assignment Method: FIFO**		
Date 2017	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
May 1	Balance							10	500	5 000
5	Inv. 234	10	550	5 500				10	500	
								10	550	10 500
6	Inv. 430				8	500	4 000	2	500	
								10	550	6 500
12	Inv. 644	7	525	3 675				2	500	
								10	550	
								7	525	10 175
17	Memo 33				1	500	500	1	500	
								10	550	
								7	525	9 675
19	Memo 34				1	500		8	550	
					2	550	1 600	7	525	8 075
24	CrN56	1	550	550				9	550	
								7	525	8 625

Question 4b.

Justification: The customs duty is a product cost because it can be easily associated with each item; for example, $50. This is relevant and without paying it the televisions would not be in a position available for sale. Therefore, it should be included in the cost price as it may affect decision making. Also, the dollar amount is significant as this would clearly affect decision-making.

Question 4c.

General Journal

Date 2017	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
May 31	Stock Loss	550			
	Stock Control		550		
	Adjusting entry for stock loss of one Tech TV as revealed by physical stocktake (Memo 35)				

Question 4d.

	Increase/Decrease/No effect	Amount
Assets	Decrease	$2 675
Liabilities	No Effect	nil
Owner's Equity	Decrease	$2 675

Question 4e.

Qualitative characteristic: Relevance

Explanation: The stock can no longer be sold for more than its cost price and this expense (loss) should be recognised so that an accurate profit is reported for the period. It is important to recognise the loss as it may have an impact on decision-making by management.

Question 5a.

Candy Enterprises
General Ledger

Mobile Phones

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/6/15	Sundry Creditor – DigPhones	2 700	30/6/16	Disposal of Phones	2 700

Accumulated Depreciation of Mobile Phones

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/6/16	Disposal of Mobile Phones	1 134	30/6/15	Depreciation of Mobile Phones	90
			30/6/16	Depreciation of Mobile Phones	1 044
		1 134			1 134

Disposal of Mobile Phones

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/6/16	Mobile Phones	2 700	30/6/16	Accumulated Depreciation of Mobile Phones	1 134
				Bank	1 200
				Loss on Disposal of Mobile Phones	366
		2 700			2 700

Question 5b.

Justification: A loss on disposal of an asset indicates that not enough depreciation has been allocated over the life of the asset. This may be the result of an overestimation of the asset's useful life, or an overestimation of its residual value. Mobile phones can become obsolete very quickly and therefore the amount they are sold for may be much less than originally estimated.

Question 5c.

Description: In the Income Statement expenses would be increased, leading to a decrease in Net Profit. In the Balance Sheet assets would be decreased and, due to a lower net profit, Owner's Equity would also be decreased.

Question 5d.

Journals: Cash Receipts Journal and General Journal

Question 6a.

Discussion: There were a variety of points students could have raised, and the following includes a range of responses that could have been included as part of the discussion.

The Stock Turnover is significantly slower than the industry average. This indicates that the business is taking much longer than the industry average to turn its stock into sales. The Debtors Turnover is also slower than the industry average. This means that even when sales have been made, the business is taking longer to collect cash from its credit customers. With both of these indicators being slower than the industry average, this business is taking considerably longer to turn its stock into actual cash flows.

At the same time the business is paying off its creditors at a much faster rate when compared to similar businesses. When combined with slower stock and debtors turnover this is detrimental to the cash flows of the business. They are paying their suppliers at a faster rate, despite the fact that their collection of cash is slower than most similar businesses. However, as the Debt Ratio indicates a much lower reliance on borrowed funds, there would be less pressure on cash flows in relation to repayments of debt. The Working Capital Ratio indicates that there are substantial reserves in liquid assets. However, this may be evidence of an undesirable buildup in debtors and stock, which would help explain the very slow turnover rates in these two current assets.

Question 6b.

Explanation: Benchmarks provide a point of comparison for a business when reviewing its performance. Benchmarks often involve a goal or a target that management uses as an objective for its future. Benchmarks are simply a level of achievement that, once set, can be used to measure performance at the end of a given period.

Examples could include: previous performance, budget performance, trends over time.

Question 6c.

Suggestion: The Return on Assets may be higher than the industry average due to having a lower asset base than similar businesses; for example, they may rent their premises rather than own it. They may have a lower investment in shop fittings or may have sold off some assets in recent times. As the Debt Ratio is significantly lower, this indicates that the business is less reliant on borrowed funds. As the owner has contributed more capital compared to other similar businesses, the Return on Owner's Investment would be expected to be lower.

Question 7a.

Hills Hardware
Budgeted Cash Flow Statement (extract) for the three months ending 30 September 2017

	$	$
Estimated Cash Flows from Operating Activities		
Receipts from Debtors	85 000	
Advertising	(7 000)	
Payments to Creditors	(22 500)	
Wages Paid	(25 000)	
Rent Paid	(10 000)	
GST settlement	(3 000)	
GST Paid	(1 700)	
Estimated Net Cash Flow from Operations		15 800

Question 7b.

Hills Hardware
General Ledger

GST Clearing

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
Sept. 30	Bank	1 700	July 1	Balance	3 000
	Bank	3 000	Sept. 30	Debtors Control	10 200
	Creditors Control	2 100			
	Sundry Creditor – AC Technologies	400			

Capital

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
Sept. 30	Drawings	9 000	July 1	Balance	112 000
			Sept. 30	Bank	10 000
			Sept. 30	P & L Summary	16 500

Question 7c.

Working space

Bank = 4 000 + 95 000 – 78 200

Debtors = 25 000 + 102 000 + 10 200 – 85 000

Stock = 38 000 + 21 000 – 40 000

Prepaid Advertising = 2 000 + 7 000 – 8 000

Creditors = 15 000 + 23 100 – 23 000

Hills Hardware
Budgeted Balance Sheet (extract) as at 30 September 2017

Current Assets	$	Current Liabilities	$
Bank	20 800	Creditors Control	15 100
Debtors Control	52 200	GST Clearing	6 000
Stock Control	19 000	Sundry Creditor – AC Technologies	4 400
Prepaid Advertising	1 000		

Question 8a.

Explanation: The Creditors Turnover rate is getting quicker and is about 25 days, while creditor terms are 30 days. This has a negative effect on the amount of cash available in the business. The

Debtors Turnover is getting slower and is now just over 50 days despite the terms being 30 days. This also has a negative impact on the cash reserves held by the business. The Stock Turnover rate has improved but is now slower and is just over 60 days. While the business is now paying for its stock in about 25 days, it is taking much longer to sell its stock and collect its cash from its debtors. Overall this means less cash on hand, which may lead to a cash shortage. Ultimately management may have to take out an overdraft or a short-term loan to ensure that they have enough cash on hand.

Question 8b.

Explanation:

- Take full advantage of the credit terms offered by suppliers to maintain cash within the business for longer and avoid possible shortages/liquidity issues.
- Review stock lines and remove slow moving lines to improve the Stock Turnover and have less cash tied up in stock.
- Look for cheaper suppliers to reduce overall costs of purchasing stock and the amount of cash needed.
- Reduce overall stock levels and move to a system such as Just-in-Time. Better understanding of stock movement and patterns can improve liquidity.
- Increase selling opportunities, for example, sell online if not already, find new markets.
- Review term policy to tighten criteria to hopefully improve Debtors Turnover. Also review effectiveness of discount offered for prompt payment. Are many customers utilising this?
- Review debtor follow-up procedures – more prompt invoicing, more regular reminders.