2023 VCE Accounting (NHT) external assessment report

Specific information

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

Question 1a.

**Inventory Card**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ITEM: Extremez Bike Cost method: Identified Cost  SUPPLIER: Pedals | | | | | | | | | | |
|  | | IN | | | OUT | | | BALANCE | | |
| Date  2023 | Document | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total |
| Jan 1 | Balance |  |  |  |  |  |  | 3 | 240 | 720 |
| 4 | Inv. 123 | 5 | 220 | 1 100 |  |  |  | 3 | 240 | 720 |
|  |  |  |  |  |  |  |  | 5 | 220 | 1 100 |
| 7 | Inv 067 |  |  |  | 2 | 220 | 440 | 3 | 240 | 720 |
|  |  |  |  |  |  |  |  | 3 | 220 | 660 |
| 10 | CrN 12 | 1 | 220 | 220 |  |  |  | 3 | 240 | 720 |
|  |  |  |  |  |  |  |  | 4 | 220 | 880 |
| 18 | Rec 876 |  |  |  | 2 | 240 | 480 | 1 | 240 | 240 |
|  |  |  |  |  | 2 | 220 | 440 | 2 | 220 | 440 |
| 31 | Memo 13 | 1 | 220 | 220 |  |  |  | 1 | 240 | 240 |
|  |  |  |  |  |  |  |  | 3 | 220 | 660 |

One mark was awarded for each entry.

Question 1b.

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  2023 | **Accounts** | **Debit** | **Credit** |
| 18 Jan | Bank | 1 848 |  |
|  | GST Clearing |  | 168 |
|  | Sales |  | 1 680 |
|  | Cost of Sales | 920 |  |
|  | Inventory |  | 920 |

One mark is awarded for Bank $1 848

One mark was awarded for Sales $1 680 and GST Clearing $168

One mark was allocated for Cost of Sales $920 and Inventory $920

Question 1c.

|  |  |
| --- | --- |
| Working Space:  Sales  Jan 7 2 @ 420 = 840  Jan 18 4 @ 420 = 1 680  Less Sales Returns 1 @ 420 = 420 |  |
| Net Sales of Extremez Bikes for January 2023 | $ 2 100 |

One mark was awarded for Sales.

One mark was awarded Sales Returns

Question 1d.

The identified cost method provides a more accurate cost of sales and inventory valuation as it is based on the actual cost price of inventory when it is purchased and sold while the first in first out (FIFO) cost assignment method assumes that the business sells the oldest inventory on hand. As NX Bikes sells inventory items that can easily be identified at the point of sale they have chosen to use the identified cost method.

One mark was awarded for definition of identified cost method and FIFO method.

One mark was awarded for each point about why it is appropriate.

One mark was awarded for explaining that the identified cost method produces a more accurate cost of sales and profit figure.

Question 2a.

* 25 March – Receipt/EFT Receipt
* 28 March – Memo

One mark was awarded for each source document.

Question 2b.

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2023** | **Details** | **Debit** | **Credit** |
| 28 Mar | Allowance for doubtful debts | 800 |  |
|  | GST Clearing | 80 |  |
|  | Accounts Receivable |  | 880 |

One mark was awarded for each line

Question 2c.

|  |  |
| --- | --- |
| Working Space:  Collected in April:  March balance: **$38 060**   April Sales Collected 60% of April’s credit sales (including GST) less 3%.  = 88 000 \* 0.6 \* 0.97 = **$51 216 *(****or 88 000 \* 0.6 = 52 800 – 3% (1 584)*  = 51 216   **Total:** 38 060 + 51 216 = $**89 276** | |
| Estimated cash to be collected from accounts receivable in April | $ 89 276 |

One mark was awarded for $38 060

One mark was awarded for $51 216

One mark was awarded for $89 276

Question 3a.

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  2023 | **Details** | **Debit** | **Credit** |
| 31 May | Inventory loss | 400 |  |
|  | Inventory |  | 400 |
|  |  |  |  |
|  | Inventory write down | 1 350 |  |
|  | Inventory |  | 1 350 |

One mark was awarded for each entry.

Question 3b.

The printers should be valued at $4 650 as the net realisable value of the printers is less than the cost. The cost of the printers is $200 each, which includes the $196 purchase price and $4 of delivery from the supplier. This represents the cost price plus all costs to get the printers into condition and location ready for sale.

The net realisable value of the printer is $155. The net realisable value is determined by subtracting selling, marketing and distribution costs from the estimated selling price of the printers. In this case the estimated selling price is $160 and the estimated selling costs are $5.

One mark was awarded for each correct point.

Question 3c.

|  |  |
| --- | --- |
| Working Space:  Tablets 60 @ $200 $12 000 Desktops 20 @ $500 $ 10 000 Printers 30 @ $155 $ 4 650 (consequential) Total Inventory $ 26 650 |  |
| Total value of inventory to be reported as at 30 April | $ 26 650 |

One mark was awarded for tablets.

One mark was awarded for both desktops and printers.

Question 3d.

|  |  |
| --- | --- |
| The 80 tablets sold would be assumed to be the first 80 units purchased:  Tablets  60 @ $200 $12 000 20 @ $190 (185 + $5) $ 3 800  **$15 800** Printers:  20 @ $155 $ 3 100 Cost of sales **$18 900** | |
| Budgeted Cost of Sales for May | $ 18 900 |

One mark was awarded for each calculation.

Question 3e.

GKP Bytes

**Budgeted Income Statement Extract for the month ending 31 May 2023**

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| Revenue |  |  |
| Sales | 31 200 |  |
| Cost of Sales | 18 900 |  |
| Gross Profit |  | 12 300 |
| Less Inventory Write down | 2 000 |  |
| Adjusted Gross Profit |  | 10 300 |
|  |  |  |

* One mark was awarded for Sales of $31 200 and Cost of Sales of $18 900.
* One mark was awarded for Gross Profit.
* One mark was awarded for Inventory Write-down and Adjusted Gross Profit.

Question 4a.

**Equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  2022 | **Cross-reference** | **Amount** | **Date**  2022 | **Cross-reference** | **Amount** |
| 1 July | Balance | 350 000 | 18 Aug | Disposal of Equipment | 90 000 |
| 13 Sept | Bank | 130 000 | 31 Dec | Balance | 390 000 |
|  |  | 480 000 |  |  | 480 000 |

* One mark was awarded for balances.
* One mark was awarded for disposal of equipment $90 000.
* One mark was awarded for bank $130 000.

**Accumulated Depreciation - Equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  2022 | Cross-reference | Amount | Date  2022 | Cross-reference | Amount |
| 18 Aug | Disposal of equipment | 60 000 | 1 Jul | Balance | 135 000 |
| 31 Dec | Balance | 147 000 | 31 Dec | Depreciation of Equipment | 72 000 |
|  |  | 207 000 |  |  | 207 000 |

* One mark was awarded for balances.
* One mark was awarded for depreciation of equipment $72 000.
* One mark was awarded for disposal of equipment $60 000.

**Disposal of Equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  2022 | **Cross-reference** | **Amount** | **Date**  2022 | **Cross-reference** | **Amount** |
| 18 Aug | Equipment | 90 000 | 18 August | Accumulated Depreciation of Equipment | 60 000 |
|  | Profit on Disposal of Equipment | 4 000 |  | Bank | 34 000 |
|  |  | 94 000 |  |  | 94 000 |

* One mark was awarded for equipment $90 000 and accumulated depreciation of equipment $60 000.
* One mark was awarded for bank $34 000.
* One mark was awarded for profit on disposal of equipment $4 000.

Question 4b.

**Drivers Auto Spares**

**Cash Flow Statement Extract for the six months ending 31December 2022**

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| Cash Flow from Investing Activities |  |  |
| Proceeds from disposal of equipment | 34 000 |  |
| Purchase of new Equipment | (130 000) |  |
| Net Cash Flow from Investing Activities |  | (96 000) |

One mark was awarded for each amount.

Question 4c.

The Cash Flow Statement improves the understandability of the information provided to the users of accounting reports by separating the cash flows into operating, investing and financing activities. When analysing the cash flow of a business the users would benefit from knowing whether the cash flows were generated from day-to-day trading activities rather than relying on the sale of non-current assets or the business taking on debt or relying on the owners to contribute cash to the business. If the business is relying on loans and capital contributions, this would result in a change in the financial structure of the business and could hide underlying cash flow issues. If the business is relying on the sale of non-current assets for its liquidity, this could have a negative impact in the long term as it would reduce the capacity of the business.

|  |  |
| --- | --- |
| Marks | Criteria |
| 4 | Detailed connections between the three sections of the Cash Flow Statement understanding link with liquidity, surplus/deficit, or the consequences of the outcome from each section  Explanation of the use of the report |
| 3 | Definitions provided for the three sections of the Cash Flow as well as at least two explanations of the connection between the sections  Some connections between the three sections of the Cash Flow Statement explained |
| 2 | Definitions provided for the three sections of the Cash Flow as well as one explanation of the connection between the sections |
| 1 | Basic definitions provided for the three sections of the Cash Flow Statement  Basic use of terminology to describe the Cash Flow Statement |
| 0 | Displays no knowledge of the three sections of the Cash Flow Statement |

Question 5

The qualitative characteristic of relevance requires information to be capable of making a difference to the decisions made by users to be reported. Information is relevant to a decision if it helps users form predictions about the outcomes of past, present or future events, and/or confirms or changes their previous evaluations by providing suitable feedback.

Identifying the portion of a non-current asset that has been consumed during a period (depreciation) and estimating the expected loss arising from accounts receivable not paying amounts owing (allowance for doubtful debts) is important and relevant information affecting both the Income Statement and Balance Sheet.

However, both involve a significant degree of estimation that may put in question whether they meet the characteristic of verifiability. To create the allowance for doubtful debts, an estimate must be made as to the percentage of net credit sales that will not be collected. This can be based on historical data but will be subject to fluctuations in current and future economic conditions as well as the business’s ability to select credit-worthy customers, and monitor and follow up slow payers. Depreciation requires estimates of economic life, pattern of use and likely residual values often several years into the future.

The qualitative characteristic of verifiability means the ability to ensure that independent observers can reach a consensus (arrive at the same conclusion) that a particular depiction of an event is faithfully represented. Verifiability is usually maintained by retention of source documents used to record the transaction and checked through auditing. The purpose of verifiability is to hold the accounting professional accountable for their work.

There is no external documentary evidence to support the estimates of depreciation or doubtful debts, although accountants usually follow similar methodologies and document their assumptions by way of memoranda or working papers. Independent observers, however, may well arrive at a different conclusion. In these cases, the need for relevant information has outweighed the requirement for documented verifiability.

|  |  |
| --- | --- |
| Marks | Criteria |
| 4-5 | Clear explanation of the conflict, includes the use of examples to illustrate the issue using depreciation and allowance for doubtful debts  Accurate use of accounting terminology  Detailed discussion of the conflict between the qualitative characteristics of verifiability and relevance |
| 2 - 3 | Demonstrates some understanding of the two characteristics and the conflict between them using the stimulus material provided |
| 1 | Basic definitions provided of at least one of the characteristics |
| 0 | Displays no knowledge of these characteristics but has attempted the question |

Question 6a.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Option 1** | | **Option 2** | |
|  | **Year 1** | **Year 2** | **Year 1** | **Year 2** |
| **Upgrading connection and electrical meter board** | 8 000 | 0 | 8 000 | 0 |
| **Electricity Grid Usage at 25 cents per unit** | 12 500 | 12 500 | 1 875 | 1 875 |
| **Supply Charges** | 500 | 500 | 500 | 500 |
| **Solar Panel System cost** | 0 | 0 | 36 000 | 0 |
| **Maintenance Contract** | 0 | 0 | 1 625 | 1 625 |
| **Total Costs** | 21 000 | 13 000 | 48 000 | 4 000 |

One mark was awarded for each line.

Question 6b.

Shaded area (A) represents the time period and the amount of difference when the cumulative cost of the solar panel system is greater than the cost of obtaining their electricity from the national grid (one mark). That is, over this period it would be cheaper to obtain electricity from the national grid. This occurs due to the higher upfront cost of installing the solar panel system.

Point B is where the cumulative costs are the same for both options. It shows the break-even point or pay-back period after which it is increasingly cheaper to use the solar panel system. The pay-back period is approximately four years before the solar panel system ‘pays for itself’. The cost of both systems at that point are approximately $60 000 over the four years.

One mark was awarded for each correct point.

Question 6c.

Assuming the business plans to continue operating in the combined premises for more than the payback period (Point B = four years), then it appears preferable to install the solar panel system. However, the solar panel system requires a much larger upfront cost and this may cause some short-term cash flow management issues. The owner could consider environmental issues as there would be less use of fossil fuels to generate electricity, which would be beneficial to the environment. The owner should also consider electricity grid costs as usage and supply are generally variable and may rise significantly. A back-up system would be useful if the grid has outages/blackouts or when the battery storage is not sufficient at various times the usage can move back and forth to the electricity grid as required. The solar panel system has a much lower cost over the 15-year life.

|  |  |
| --- | --- |
| Marks | Criteria |
| 5-6 | Detailed discussion of both options including financial and ethical considerations  Accurate use of accounting terminology  Discussion of the implications of the choice of their decision |
| 3-4 | Demonstrates an understanding of the financial and ethical considerations  Reference to both positive and negative implications of the decision made by the owner  General use of accounting terminology  Some limited discussion of the costing and other considerations |
| 1-2 | Basic, if any reference, to ethical and/or financial considerations  Identification of at least one ethical or one financial issue  A very basic comment about one benefit of an option |
| 0 | Displays no knowledge of these characteristics but has attempted the question |

Question 6d.

**Done DIY**

**Balance Sheet Extract as at 31 December 2025**

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| Non-Current Assets |  |  |
| Solar Panel System | 36 000 |  |
| Accumulated Depreciation of Solar Panel System | (15 750) | 20 250 |
|  |  |  |

One mark was awarded for each line.

Question 7

Worrying signs are that the quick asset ratio has decreased significantly and inventory turnover has slowed. The business now only has $0.89 of quick assets (cash and accounts receivable) for every dollar of current liabilities. This means they are reliant on quickly converting inventory and accounts receivable to cash if they are to meet their short-term commitments as they fall due. While accounts receivable turnover is a positive at 34 days – just over the 30-day trading terms – the inventory turnover has slowed significantly from 113 to 151 days, meaning cash is tied up for much longer in inventory. This may be due to excess inventory being purchased or a build-up of slow-selling or obsolete inventory. The business is also not fully utilising the credit terms offered by suppliers and is increasingly paying off debts before they fall due. This means cash is being paid out faster than required and faster than it is being collected from accounts receivable.

Strategies:

* Review inventory holdings and purchasing requirements to ensure obsolete/slow-moving inventory is identified and written down if required. Improve the inventory mix and optimise inventory levels.
* Ensure supplier credit terms are fully utilised and pay accounts on time but not as early.
* Improve accounts receivable turnover even more by ensuring careful granting of credit to account customers, prompt billing and follow up of late accounts.
* Review other items outside of those shown in the table such as mark-up policies and expense control.

|  |  |
| --- | --- |
| Marks | Criteria |
| 3-4 | Accurate use of accounting terminology  Detailed understanding of financial indicators |
| 2 | General use of accounting terminology  Some understanding of financial indicators |
| 1 | Basic reference to use of financial indicators |

Question 8a.

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| Date  2023 | Details | Debit | Credit |
| Jun 30 | Rent Expense | 36 000 |  |
|  | Prepaid Rent Expense |  | 36 000 |
|  |  |  |  |
| Jun 30 | Depreciation of Shop Fittings | 15 600 |  |
|  | Accumulated Depreciation of Shop Fittings |  | 15 600 |
|  |  |  |  |
| Jun 30 | Wages Expense | 2 000 |  |
|  | Accrued Wages |  | 2 000 |
|  |  |  |  |

One mark was awarded for each line.

Question 8b.

According to the accrual basis assumption, expenses are recognised when they are incurred or consumed. Accrual basis profit is determined by subtracting expenses incurred for a period from revenue earned in that same period. In this instance, $39 000 has been paid in advance for rent and recorded as an asset. $3000 of the $9000 paid in May relates to the next accounting period and should still be reported as an asset. The other $36 000 has now been consumed and an adjustment is required to reduce the asset and recognise rent expense has been incurred.

One mark was awarded for each correct point.

Question 8c.

The choice of depreciation method should match the expected pattern of use of the asset. Shop fittings provide a similar benefit each year and therefore are consumed evenly over their useful life, so should be depreciated by the same amount each year. Straight line allocates the same amount each year – in this case 12 per cent of the original cost of the shop fittings.

One mark was awarded for each correct point.

Question 8d.

|  |  |
| --- | --- |
| Working Space:  Cost of Sales 260 000 Rent 36 000 Wages 127 000  Depreciation 15 600 |  |
| Total Expenses for the period | $ 438 600 |

One mark was awarded for each of the two correct expenses.

Question 8e.

**Profit & Loss Summary**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  2022 | **Cross-reference** | **Amount**  $ | **Date**  2022 | **Cross-reference** | **Amount**  $ |
| Dec 31 | Expenses | 438 600 | Dec 31 | Revenue | 520 000 |
|  | Capital | 81 400 |  |  |  |
|  |  | **520 000** |  |  | **520 000** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

One mark was awarded for each entry. Totals were required.