VCE Accounting 2019–2024
Advice for teachers

Detailed examples

Unit 1 Area of Study 1: The role of accounting in business

| Detailed example 1 |
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| **Price-setting for small business***Business scenario*Courtney Homberg is looking to open her own business selling a range of custom-made dresses. She is concerned about how she should price her line of clothing and has decided to undertake break-even analysis. She is considering the following two business alternatives.**Alternative 1**Courtney can rent a small shop in a major shopping centre. She will work one or two days a week in the shop and the remainder of the time she will work from home, designing and sewing the clothes for her shop. Her costs for this option are:Rent of shop $12,000 plus GST per annumAdministration costs $550 including GST per monthWages (manager) $1,500 per monthWages (assistant) $40 per dressCost of material $100 per dress plus GSTCost of thread and buttons, etc. $8 per dress plus GST.Courtney would like to earn a monthly profit of $800.**Alternative 2**Courtney could rent a larger shop in a suburban shopping strip. The shop would feature a workshop at the back where she could produce the dresses. She would work six days a week, dividing her time equally between the workshop and the shop. Her costs for this option are:Rent of shop $2,400 plus GST per quarterAdministration costs $82.50 including GST per weekWages (manager) $1,000 per monthWages (assistant) $30 per dressEquipment hire $700 per month plus GSTCost of material $100 per dress plus GSTCost of thread and buttons, etc. $8 per dress plus GSTCourtney would like to earn a monthly profit of $800.Courtney is considering selling her Inventory for $250 per dress (plus GST). She also believes that on average she can sell 12 dresses each week.*Tasks*1. For both business alternatives, calculate the:* number of dresses that need to be sold to break even if they sell for $250 each
* number of dresses that need to be sold to achieve a desired profit if they sell for $250 each
* selling price of inventory (per dress) required to break even if 12 dresses are sold per week
* selling price of inventory (per dress) required to achieve a desired profit if 12 dresses are sold per week.

Note: Round answers up to the nearest dollar value or number of dresses.**Alternative 1**

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| Number of dresses needed to be sold to break even if she sells the dresses for $250 each: |

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| Number of dresses needed to be sold to achieve a desired profit if the dresses are sold for $250 each: |

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| Selling price of each dress to break even if 12 dresses are sold per week: |

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| Selling price of each dress to achieve a desired profit if 12 dresses are sold per week: |

**Alternative 2**

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| Number of dresses needed to be sold to break even if she sells the dresses for $250 each: |

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| Number of dresses needed to be sold to achieve a desired profit if the dresses are sold for $250 each: |

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| Selling price of each dress to break even if 12 dresses are sold per week: |

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| Selling price of each dress to achieve a desired profit if 12 dresses are sold per week: |

2. Present the results for the two alternatives in a table, using a spreadsheet.3. Based on these results, recommend and justify to Courtney whether Alternative 1 or Alternative 2 should be adopted.4. Identify and explain one other price-setting strategy Courtney could use to determine the selling price for her dresses. |

| Detailed example 2 |
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| **Ethical considerations when making decisions in relation to operating a business***Business scenario*You have been employed by Harry Handy, a sole proprietor, to prepare the financial reports for his handyperson/ maintenance business. While reviewing the business documentation you discover that Harry has not included any cash received (cash in hand) from his customers as revenue.Revenue for the business consists only of the amounts he completes for businesses, those who pay once an account is issued, and through direct debit to the business bank account.All business owners have a responsibility to make ethical decisions in relation to their business operations.*Task*Discuss what you believe to be the issue in Harry’s ethical decision-making in this instance. |