VCE Accounting 2019–2024
Advice for teachers

Detailed examples

Unit 1 Area of Study 2: Recording financial data and reporting accounting information for a service business

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| Detailed example 1 |
| **Providing advice on business decisions***Business scenario*Emma Smith is the owner of a dog-grooming business. At the end of the first 12 months in business, Emma has the following results. Smith’s Doggie GroomingIncome Statement for the year ended 30 June 2023RevenueService Fees $180,000Less Expenses $Supplies Used 35,000Wages 40,000Advertising 12,000Rent Expense 18,000Water 4,000Electricity 5,000Interest Expense 1,000 $115,000Net Profit $65,000While she is quite pleased with these figures, Emma considers that, after taking account of drawings from the business, there has been minimal capital growth and there is consequently limited future opportunity for business expansion. Emma has a number of ideas that she hopes may improve business performance. *Tasks*1. Using a spreadsheet, model the effects of each of the three options below. 2. Consider each option and show the effects of each on the accounting equation. Should she consider implementing one or more of these options? Why or why not? 3. Prepare and justify the advice you would give Emma.**Option 1**Emma has noticed that some similar dog-grooming businesses differentiate themselves by using only organic products on the dogs. She has sourced a potential supplier of these products and while they are more expensive, they are also environmentally friendly. Emma estimates that the cost of supplies used would probably increase by 25% but she also predicts that this would lead to a 35% increase in service fees. She estimates that a further $2,000 would be needed in advertising to promote this change.**Option 2**At certain times of the year Emma finds that she has to turn away potential new customers because her business is fully booked. She currently employs one additional staff member on a part-time basis during busy periods. She is considering hiring a second staff member. Emma estimates that this will cost her an additional $40,000 in wages and potentially increase service fees by $70,000. Supplies used are likely to also increase by $10,000 and electricity and water by $1,000 each.**Option 3**Emma has considered the possibility of adding a mobile dog-washing service to the business. She estimates that this would increase her customer base by 25%. However, there would be a one-off cost involved in setting this up, requiring a business loan of $50,000 for purchase of a specially fitted trailer. Emma predicts the following would result from adding the mobile dog-washing unit to the business:* Service Fees and Supplies Used would increase by 25%
* Wages would increase by $40,000 because this business would initially run on two days a week
* Advertising costs would increase by $2,000
* There would be no increase in water and electricity because these would be sourced from the customer’s home
* Interest expense would increase by 300% due to the loan required to purchase the trailer and fit it out.
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| Detailed example 2 |
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| **Ethical considerations when recording transactions***Business scenario*An accountant has noted several problems in the internal control system of a business for which he has been preparing financial reports over the last two years. Cash is not recorded or banked properly and there are no safeguards in place for the management of cash. Several employees are paid in cash and their wages are not recorded correctly. In addition, some of the wages paid are below award rates. Combined with this is the fact that there is a constant discrepancy in cash on hand that cannot be explained.*Tasks*1. Explain various internal control procedures the accountant should discuss with the business owner in relation to safeguarding the cash of the business.2. Discuss the ethical implications of what the owner is doing in relation to paying of wages. Explain how this may be affecting the business. |

| Detailed example 3 |
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| **Ethical considerations when recording and reporting transactions***Business scenario*In 2018 the two major Australian supermarket chains introduced a ban on single-use plastic bags. The supermarket chains justified this move as a strategy aimed at protecting the environment. They argued that single-use plastic bags contribute significantly to landfills and frequently find their way into the river systems and oceans due to incorrect disposal. Despite announcing the change weeks in advance, coupled with a significant advertising campaign designed to raise customer awareness of the single-use plastic bag ban, it still resulted in significant issues for both customers and staff.Many customers were unaware of the ban when it commenced and were left without a bag in which to carry their groceries home. Consequently, they were forced to purchase re-usable bags at the checkout.While re-usable bags had been available for purchase for a number of years at both supermarket chains, the advent of the plastic bag ban meant customers without their own bags were forced to purchase bags at the checkout. This resulted in a great deal of anger. The media reported several instances where customers became abusive towards supermarket staff.The supermarket that was the first to introduce the ban began selling re-usable plastic bags. However, the price of these bags caused further anger among consumers. In response to customer complaints, the price was lowered significantly for a period of time while customers adjusted to the new conditions.Media reports then circulated that the ban on single-use plastic bags was not necessarily motivated by concern for the environment but driven by profit. This was because supermarkets were no longer required to pay for single-use bags (a cost saving) and they also earned revenue via the sale of re-usable bags.*Tasks*1. Explain what is meant by an ethical consideration.2. Describe the ethical justification supermarket chains may have provided for the introduction of the plastic bag ban.3. Describe why consumers may be cynical regarding the justification provided by the supermarket chains.4. In your opinion, are the supermarkets acting in an ethical manner or does the financial benefit outweigh the ethical consideration? Justify your answer.5. Does your answer to the previous question change when you consider that another major store has never used plastic bags and all of its products are packaged in paper bags? Explain your answer. |