VCE Accounting 2019–2024
Advice for teachers

Detailed examples

Unit 2 Area of Study 1: Accounting for inventory

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| Detailed example 1 |
| **Inventory cards and spreadsheets for preparing financial reports***Business scenario*Trinh owns a toy warehouse in the western suburbs of Melbourne. She sells a wide range of toys and games, which she has sourced from a local supplier in the past. In November, her business, Trinh’s Terrific Toys, was selected as the regional supplier of a new series of robotic toys. She hopes these new products will attract greater numbers of customers and plans to import significant quantities to ensure that customers are not disappointed.At the beginning of November, the following items were on hand:

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| --- | --- | --- | --- |
|  | **Quantity** | **Cost Price** | **Selling Price** |
| Robotic Dog | 250 | $36.00 plus GST | $49.00 plus GST |
| Robotic Cat | 150 | $38.00 plus GST | $52.00 plus GST |
| Dancing Robot | 80 | $42.00 plus GST | $59.00 plus GST |

*Transactions*

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| --- | --- |
| Nov 4 | Sold 40 Robotic Dogs and 25 Robotic Cats for cash (Rec.474) |
|  9 | Sold 30 Dancing Robots to J. Nguyen on credit and sold Robotic Dogs for $392 (Inv.199) |
|  15 | Purchased 40 Dancing Robots on credit from Bennett’s Imports for $44 each (Inv.42A) |
|  18 | Withdrew 20 Robotic Dogs from the business to give to family members for Christmas (Memo 241) |
|  22 | Cash sales included 90 Robotic Dogs, 65 Robotic Cats and 60 Dancing Robots (Rec.475) |
|  28 | Purchased 40 Robotic Dogs at $39 each, 40 Robotic Cats at $42 each and 40 Dancing Robots at $50 each from a new importer (Inv.342) |
| Dec 3 | Cash Sales included: 70 Robotic Dogs, 65 Robotic Cats and 32 Dancing Robots (Rec.476) |
|  9 | Trinh attended a trade show where she managed to purchase new inventory at a discounted price. She purchased 80 Dancing Robots at $42, 80 Robotic Dogs at $35 and 40 Robotic Cats at $40 (Inv.391) |
|  13 | Credit Sales included 30 Robotic Dogs and 20 Dancing Robots (Inv.200) |
|  18 | Trinh donated 5 Robotic Cats and 5 Robotic Dogs to a local Christmas children’s charity (Memo 242) |
|  22 | Cash sales included 35 Robotic Dogs, 22 Robotic Cats and 30 Dancing Robots (Rec.477) |
|  23 | Purchased 20 Dancing Robots at $43 each and 20 Robotic Dogs at $37 each (Inv.432) |
|  24 | Cash sales included 40 Robotic Dogs, 12 Robotic Cats and 30 Dancing Robots (Rec.478) |
|  31 | A physical count of inventory revealed the following items on hand: 58 Robotic Dogs, 33 Robotic Cats and 58 Dancing Robots (Memo 243) |

*Tasks*Record the transactions for November on inventory cards. **Inventory Card**

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| **ITEM: …………………………………………………………………………… Cost Method: ……………………………………..****SUPPLIER: …………………………………………………………………….** |
|  | **IN** | **OUT** | **BALANCE** |
| Date | Document | Quantity | Cost | Total | Quantity | Cost | Total | Quantity | Cost | Total |
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1. Calculate the Sales Revenue for each item of inventory, using the inventory cards.

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| **Item** | **Working Space** | **Sales Revenue** |
| Robot Dog |  |  |
| Robot Cat |  |  |
| Dancing Robot |  |  |
|  | Total Revenue |  |

1. Calculate the Cost of Sales (COS) for each item of inventory, using inventory cards.

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| **Item** | **Working Space** | **Cost of Sales** |
| Robot Dog |  |  |
| Robot Cat |  |  |
| Dancing Robot |  |  |
|  | Total Cost of Sales (COS) |  |

4. Record the transactions in the Cash Receipts, Cash Payments, Purchases and Sales Journal for the business.5. Calculate the Gross Profit for November and December.

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| **Gross Profit** | $  |

6. Calculate the overall Inventory Loss/Gain for the two months.

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| **Inventory Loss/Inventory Gain** | $  |

7. Explain to Trinh two possible reasons for any inventory loss.8. Using the expenses listed below and the calculations you have completed above, prepare an Income Statement for Trinh’s Terrific Toys for November.* Additional Expenses: Advertising $900
* Sales Wages $2,400
* Office Expenses $860
* Vehicle Expenses $450
* Bank Charges $35
* Rent Expense $1,900.

9. Trinh is worried about the amount of inventory she has left now that the Christmas rush is over. Suggest two ways to ensure that she could sell this inventory.10. Explain to Trinh two disadvantages of holding too much inventory.11. During the period, Trinh withdrew some inventory from the business. With reference to one accounting assumption, explain how you would treat this.12. Discuss the ethical considerations of importing inventory from overseas suppliers rather than using local suppliers. |

| Detailed example 2 |
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| **Ethical considerations on business performance***Business scenario*Sasha Widelski owns a clothing business and she imports clothing from overseas. Sasha has recently introduced a business policy that aims to uphold basic human rights standards in her business. She has stipulated in her supplier’s contracts that they must meet minimum standards in relation to working conditions. In addition, her suppliers must provide her with copies of their policies in relation to their working conditions and minimum wages, and their occupational health and safety policies. Sasha does not purchase from any overseas supplier that operates sweatshops or uses child labour.*Tasks*Discuss the potential impact of these ethical considerations on the performance of Sasha’s business. |