



Trial Examination 2022

VCE Accounting Units 3&4

Written Examination

Suggested Solutions

Question 1 (15 marks)**a.**

| Explanation |
|--|
| The owner is incorrect because the revenue earning pattern of the vehicle is expected to decrease over time. This is because the vehicle is expected to earn more revenue at the beginning of its estimated useful life than at the end of its estimated useful life. As the straight-line method of depreciation applies the same amount of the cost of depreciation over the asset's estimated useful life, it is not the most suitable method to use for the vehicle. |
| A more appropriate method of depreciation is the reducing balance method. Unlike the straight-line method of depreciation, the reducing balance method allocates more depreciation expense at the beginning of the vehicle's useful life and less at the end of the vehicle's useful life. This method better matches the revenue earning pattern of this non-current asset. |

3 marks

*1 mark for identifying the revenue earning pattern of the vehicle.**1 mark for explaining that the straight-line method of depreciation allocates the same amount of depreciation expense over the estimated useful life of non-current assets.**1 mark for describing the reducing balance method of depreciation and why it is a more appropriate method of depreciation.***b.**

| Explanation |
|--|
| On the Balance Sheet, the asset (Bank) increases by \$40 080, the current liabilities (loan TGW Bank) increases by \$14 400 and the non-current liabilities (loan TGW Bank) increases by \$25 680. |
| There is no effect on Owner's Equity. |
| There is no effect on the Income Statement because the loan is not classified as revenue or an expense. |
| On the Cash Flow Statement, there is no effect on Operating Activities and Investing Activities. |
| There is a Financing Activities inflow of \$40 080 (loan TGW Bank). |

3 marks

*1 mark for explaining the effect on the Balance Sheet.**1 mark for explaining that there is no effect on the Income Statement.**1 mark for explaining the effect on the Cash Flow Statement.***c.**

| Working space | |
|---|-----------------|
| 30/6/20: \$24 000 – \$4 200 = \$19 800 | |
| 30/6/21: \$24 000 – \$7 800 = \$16 200 | |
| 30/6/22: \$24 000 – \$11 400 = \$12 600 | |
| Carrying value of vehicle as at 30 June 2022 | \$12 600 |

3 marks

*1 mark for calculating the depreciation expense for 2020, 2021 and 2022.**1 mark for including the existing \$600 Accumulated Depreciation in the Balance Sheet (extract) as at 30 June 2019.**1 mark for calculating the carrying value as at 30 June 2022.**Note: Award consequential marks for errors carried through.*

d.

Planting Greens**General Ledger****Disposal of Vehicle**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|--------|-----------------|--------|--------|-------------------------------------|--------|
| 1/7/22 | Vehicle | 24 000 | 1/7/22 | Accumulated Depreciation of Vehicle | 11 400 |
| | | | | Vehicle | 7 000 |
| | | | | Loss on Disposal of Vehicle | 5 600 |
| | | 24 000 | | | 24 000 |

3 marks

*1 mark for credit entry Vehicle and debit entry Vehicle.**1 mark for credit entry Accumulated Depreciation.**1 mark for credit entry Loss on Disposal of Vehicle.*

*Note: Deduct a maximum of 1 mark for using incorrect titles. Deduct a maximum of 1 mark for incorrect presentation. Award consequential marks for the Accumulated Depreciation of Vehicle and Loss on Disposal of Vehicle entries from **Question 1c**.*

Vehicle

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|--------|---------------------|--------|---------|---------------------|--------|
| 1/7/22 | Balance | 24 000 | 1/7/22 | Disposal of Vehicle | 24 000 |
| | Disposal of Vehicle | 7 000 | 30/6/23 | Balance | 42 000 |
| | Bank | 35 000 | | | |
| | | 66 000 | | | 66 000 |
| 1/7/23 | Balance | 42 000 | | | |

3 marks

*1 mark for opening balance (1/7/22), closing balance (30/6/22) and opening balance (1/7/23).**1 mark for credit entry Disposal of Vehicle and debit entry Disposal of Vehicle.**1 mark for debit entry Bank.**Note: Deduct a maximum of 1 mark for using incorrect titles.*

Question 2 (18 marks)**a.**

| Explanation |
|--|
| Generally, a faster turnover indicates positive business performance. This is because the Accounts Receivable Turnover measures the number of days taken for the average total accounts receivable to repay the amount owing. One reason why the trend in the Accounts Receivable Turnover may not be an indication of effective management of credit customers is because two customers (Polished Surf and Rift Surfing) were written off as unrecoverable during March 2022. |
| When customers are written off as unrecoverable, the closing balance of the Accounts Receivable will decrease. If credit sales either increase or remain constant, a lower average Accounts Receivable will indicate a faster Accounts Receivable Turnover. |

3 marks

1 mark for explaining that a faster Accounts Receivable Turnover is generally an indication of positive business performance.

1 mark for identifying the two customers being written off as unrecoverable as one reason why the trend may not be an indication of effective management of credit customers.

1 mark for explaining the impact of the customers being written off as unrecoverable on the closing balance of the Accounts Receivable and on the Accounts Receivable Turnover.

b.

| Working space | | | | | |
|--|--|---------------|----------------------|------------------------|---------------|
| 23/3/22: $\$3\,300 + 25\% = \$4\,400$ (\$1 100 not repaid) | | | | | |
| 31/3/22 closing balance: | | | | | |
| Net credit sales = $\$43\,000 - \$5\,700 = \$37\,300$ | | | | | |
| $\$37\,300 \times 3\% = \$1\,119$ | | | | | |
| Allowance for Doubtful Debts | | | | | |
| Date 2022 | Cross-reference | Amount | Date 2022 | Cross-reference | Amount |
| 16/3 | Accounts Receivable – Polished Surf | 2 000 | 1/3 | Balance | 1 700 |
| 23/3 | Accounts Receivable – Rift Surfing | 1 000 | 31/3 | Bad Debts | 2 419 |
| 31/3 | Balance | 1 119 | | | |
| | | 4 119 | | | 4 119 |

Blue Surfboards**General Journal**

| Date 2022 | Details | Debit | Credit |
|----------------------|------------------------------------|--------------|---------------|
| 23/3 | Bank | 3 300 | |
| | Allowance for Doubtful Debts | 1 000 | |
| | GST Clearing | 100 | |
| | Accounts Receivable – Rift Surfing | | 4 400 |
| 31/3 | Bad Debts | 2 419 | |
| | Allowance for Doubtful Debts | | 2 419 |

6 marks

*1 mark for debit entry Bank.**1 mark for debit entry Allowance for Doubtful Debts.**1 mark for debit entry GST Clearing.**1 mark for credit entry Accounts Receivable – Rift Surfing.**1 mark for debit entry Bad Debts.**1 mark for credit entry Allowance for Doubtful Debts.**Note: Deduct a maximum of 1 mark for incorrect titles. Deduct a maximum of 1 mark for the omission of dates.***c.**

| Explanation |
|--|
| One reason for the increase in Sales Returns could be the decision to move to a cheaper supplier in March 2022. |
| If customers are dissatisfied with the quality of the surfboards sold by Blue Surfboards, this will explain why they have returned the inventory to the business. The owner should be concerned about the unfavourable trend in Sales Returns because it lowers net credit sales and, hence, lowers the Net Profit. In addition, Blue Surfboards may lose existing and potential customers if the quality of inventory provided by the cheaper supplier is inferior. |

3 marks

*1 mark for identifying the reason for the increase in Sales Returns as the cheaper supplier.**1 mark for explaining that the owner should be concerned about the unfavourable trend because of the lower Net Profit.**1 mark for explaining the possibility of losing existing and potential customers due to inferior quality inventory.*

d.

| Description and evaluation |
|---|
| The trend in the Accounts Payable Turnover is unfavourable because it is becoming slower. |
| This is because it is taking Blue Surfboards five days longer, on average, for the business to repay its suppliers in March 2022 when compared to February 2022. Furthermore, Blue Surfboards is repaying its average suppliers outside credit terms by four days. This may result in a poor credit rating for the business and/or being denied credit facilities in the future. |
| One positive impact of the slower Accounts Payable Turnover on the Cash Flow Cover is that, with a decrease in cash outflows from Operating Activities, the Net Cash Flows from Operating Activities will be higher, resulting in an improvement in the Cash Flow Cover. |
| Nevertheless, if the credit purchases of inventory increase or remain constant and the business does not repay average total Accounts Receivable within the credit terms, the closing balance of the Accounts Payable will be higher. An increase in the Current Liabilities of the Balance Sheet will have a negative impact on the Cash Flow Cover because this financial indicator measures the number of times per period that the Net Cash Flows from Operating Activities covers the Current Liabilities. |

4 marks

1 mark for describing the trend in the Accounts Payable Turnover as unfavourable because it is slower as the business is taking longer to repay suppliers.

1 mark for recognising the impact of repaying average Accounts Payable outside credit terms in March 2022.

1 mark for explaining the positive impact of the slower Accounts Payable Turnover on the Cash Flow Cover.

1 mark for explaining the negative impact of the slower Accounts Payable Turnover on the Cash Flow Cover.

e.

| Explanation |
|--|
| One ethical issue that the owner of Blue Surfboards should consider is the social aspect of the decision to sell inventory on credit. If customers are not in a position to repay the amount owing due to poor cash flow, these businesses may be forced to lower other cash expenses such as wages by reducing the number of hours worked by employees. |

2 marks

1 mark for identifying an ethical issue.

1 mark for explaining the possible impact of the issue on the cash flow.

Question 3 (9 marks)

a.

| Explanation |
|--|
| The estimated cash surplus of \$5 200 from the Operating Activities and the estimated Net Profit of \$3 100 are different because cash and profit are different resources. The forecasted surplus from the Operating Activities is determined by subtracting the cash inflows from Operating Activities from the cash outflows from Operating Activities for the six months ending 30 June 2022. |
| On the other hand, the estimated Net Profit of \$3 100 is based on the revenue estimated to be earned less the expenses estimated to be incurred for the six months ending 30 June 2022. |
| Not all cash inflows from Operating Activities are revenues and not all cash outflows from Operating Activities are expenses. |

2 marks

1 mark for explaining how the estimated cash surplus from the Budgeted Cash Flow Statement is determined.

1 mark for explaining how the estimated Net Profit from the Budgeted Income Statement is determined.

b.

Café Cups**Income Statement Variance Report (extract) for six months ending 30 June 2022**

| | Budgeted (\$) | Actual (\$) | Variance (\$) | Favourable/ unfavourable |
|--------------------------------|--------------------------|------------------------|--------------------------|-------------------------------------|
| Revenue | | | | |
| Cash Sales | 17 000 | 12 000 | 5 000 | U |
| Credit Sales | 24 000 | 21 000 | 3 000 | U |
| Less Sales Returns | 450 | 800 | 350 | U |
| Less Cost of Goods Sold | | | | |
| Cost of Sales | 20 275 | 16 100 | 4 175 | F |
| Customs Duty | 1 000 | 700 | 300 | F |
| Gross Profit | 19 275 | 15 400 | 3 875 | U |
| Less Inventory Loss | 0 | 30 | 30 | U |
| Less Inventory write-down | 0 | 70 | 70 | U |
| Adjusted Gross Profit | 19 275 | 15 300 | 3 975 | U |

3 marks

1 mark for Cash Sales, Credit Sales and Sales Returns.

1 mark for Cost of Sales and Customs Duty.

1 mark for Inventory Loss and Inventory write-down.

Note: Deduct a maximum of 1 mark if Gross Profit and Adjusted Gross Profit are not reported.

c.

| Explanation |
|--|
| One reason why Café Cups should also prepare a Variance Report for Cash Flow Statements is to identify discrepancies so that corrective action can be taken. |
| Although the business has forecasted a cash surplus of \$5 200 from the Operating Activities, a Variance Report will inform users of the financial information if errors are made in the budgeting process by comparing the estimates with the actual results. For example, the business predicted cash sales of \$17 000, but earned and received cash sales of \$12 000. |

2 marks

1 mark for explaining the use of a Variance Report enables discrepancies to be identified and corrective action taken.

1 mark for linking the response to Café Cups.

d.

| Discussion |
|---|
| One strategy the business owner could adopt to improve net profit is to implement steps to reduce the amount of Sales Returns for the next reporting period, such as changing to a supplier of better-quality inventory or checking the correct inventory is delivered to customers. |
| A reduction in the amount of Sales Returns will improve the Net Profit of Café Cups. However, moving to a supplier of better-quality inventory may increase the cost price of inventory. If the selling price remains constant, the Gross Profit will be lower. Checking the inventory will require the working hours of an existing employee to increase or, potentially, a new employee to be recruited. Both will result in an increase in Wages expense, which will lower the Net Profit. |

2 marks

1 mark for identifying an appropriate example from the Income Statement Variance Report (extract).

1 mark for discussing the positive and negative effects of an appropriate strategy on the Net Profit.

Note: Appropriate examples include variances in Cash Sales, Credit Sales, Inventory Loss or Inventory write-down.

Question 4 (14 marks)

a.

| Working space |
|---|
| Net realisable value: \$800 – \$50 = \$750 × 15 = \$11 250 |
| Cost: \$1 000 × 15 = \$15 000 |
| Inventory write-down: \$3 750 |

Exclusive Bags**General Journal**

| Date 2022 | Details | Debit | Credit |
|----------------------|-------------------------|--------------|---------------|
| 31/10 | Rent | 1 300 | |
| | Advertising | | 1 300 |
| 31/10 | Accrued Wages | 300 | |
| | Wages | 1 400 | |
| | Bank | | 1 700 |
| 31/10 | Wages | 500 | |
| | Accrued Wages | | 500 |
| 31/10 | Bank | 420 | |
| | Unearned Sales Revenue | | 420 |
| 31/10 | Inventory write-down | 3 750 | |
| | Inventory | | 3 750 |
| 31/10 | Vehicle | 24 000 | |
| | Capital | | 9 000 |
| | Loan – Red Cars Finance | | 15 000 |

9 marks

*1 mark for debit entry Rent and credit entry Advertising.**1 mark for debit entry Accrued Wages.**1 mark for debit entry Wages.**1 mark for credit entry Bank.**1 mark for debit entry Wages and credit entry Accrued Wages.**1 mark for debit entry Bank and credit entry Unearned Sales Revenue.**1 mark for debit entry Inventory write-down and credit entry Inventory.**1 mark for debit entry Vehicle.**1 mark for credit entry Capital and credit entry Loan – Red Cars Finance.**Note: Deduct 1 mark for each incorrect entry (maximum 2 marks).***b.****Exclusive Bags****Balance Sheet (extract) for month ending 31 October 2022**

| | \$ | \$ |
|----------------------------|-----------|-----------|
| Current Liabilities | | |
| Accounts Payable | 3 300 | |
| GST Clearing | 980 | |
| Accrued Wages | 500 | |
| Unearned Sales Revenue | 420 | |
| Loan – Red Cars Finance | 3 000 | 8 200 |

4 marks

*1 mark for Accounts Payable and GST Clearing.**1 mark for Accrued Wages.**1 mark for Unearned Sales Revenue.**1 mark for Loan – Red Cars Finance.**Note: Deduct a total of 1 mark for incorrect presentation.*

c.

| |
|--|
| Suggestion |
| One use of the Balance Sheet is to show the financial position of a business such as Exclusive Bags at a particular point in time. |

1 mark

*1 mark for providing an appropriate suggestion.***Question 5 (5 marks)**

a.

| |
|---|
| Discussion |
| While there are areas of improvement in the financial performance of Tea Leaves, there are also areas of concern. |
| The trend in the Asset Turnover (ATO) is favourable because the average total assets are being used more productively to earn revenue for Tea Leaves. This is shown in the financial information; the ATO is faster by 0.5 times in the quarter ending 30 September 2022 when compared to the quarter ending 30 June 2022. |
| The increase of 14% in the Debt Ratio indicates that the stability of Tea Leaves has deteriorated, as the business is more reliant on external funds to finance its total assets. The favourable trend in the Asset Turnover suggests that the business has used the debt to replace idle assets to generate revenue. |
| Nonetheless, the trend in the Return on Assets (ROA) is unfavourable because the ability of the average total assets to earn net profit has been less effective during the quarter ending 30 September 2022 when compared to the quarter ending 30 June 2022. This is evidenced by the decrease in the ROA of 1.5%. The reason for this may be poor expense control as the trend in the Net Profit Margin is also unfavourable; it has decreased by 1.3%. |

4 marks

Note: Mark globally; a range of responses are acceptable. The following marking guide has been included for reference.

1 mark for discussing the favourable trend in the Asset Turnover.

1 mark for suggesting the increase in Debt Ratio may have resulted in the favourable trend in the Asset Turnover.

1 mark for discussing the unfavourable trend in the Return on Assets and suggesting poor expense control as the reason.

1 mark for discussing the unfavourable trend in the Net Profit Margin and suggesting poor expense control as the reason.

Note: Responses must refer to and embed appropriate financial data.

b.

Example*Any one of:*

- the results from a customer satisfaction survey
- the number of customer complaints
- the number (not the value) of times inventory is returned in a given period
- the number of hits on a website
- the number of customers who visit the business in a given period
- the number of repeat customers in a given period
- the number (not the value) of sales in a given period

1 mark

Question 6 (9 marks)

a.

Working spaceRose candles: $30 \times (\$20 + \$5) = \$750$ Green tea candles: $20 \times (\$25 + \$5) = \$600$ **Explanation**

As a period cost is a cost incurred in getting inventory into a condition or location that cannot be logically attributed to one type of inventory, treating the logo as a period cost will lower the Net Profit of Wick Candles for the month ending 30 November 2022 by \$3 100. This is because, when treated as a period cost, the entire logo expense of \$2 000 will be recognised as being incurred and the Cost of Sales expense will be \$1 100.

A product cost is a cost incurred in getting inventory into a condition or location that can be logically attributed to one type of inventory. Therefore, treating the logo as a product cost will lower the Net Profit for the month ending 30 November 2022 by \$1 350. This is because, when treated as a product cost, the Cost of Sales expense is recognised only when the inventory (rose candles and green tea candles) is sold. As only 30 rose candles and 20 green tea candles were sold, the Cost of Sales expense will be \$1 350 because it includes the additional cost of \$250. Therefore, the Net Profit will be higher by \$1 750 if the logo is treated as a product cost.

4 marks

*1 mark for explaining period costs.**1 mark for explaining product costs.**1 mark for stating the effect of treating the logos as a product cost and as a period cost on the Net Profit (must include amounts expressed as dollars).**1 mark for stating that the Net Profit will be higher if the logos are treated as a product cost.*

b.

Wick Candles**Income Statement for the month ending 30 November 2022**

| | \$ | \$ |
|--------------------------------|-------|-------|
| Revenue | | |
| Credit Sales | | 2 430 |
| Less Cost of Goods Sold | | |
| Cost of Sales | 1 350 | |
| Import Duties | 400 | 1 750 |
| Gross Profit | | 680 |
| Plus Inventory Gain | | 60 |
| Adjusted Gross Profit | | 740 |
| Rent | 750 | |
| Wages | 350 | 1 100 |
| Net Loss | | 360 |

5 marks

*1 mark for Credit Sales.**1 mark for Cost of Sales.**1 mark for Import Duties.**1 mark for Inventory Gain.**1 mark for Rent and Wages.*

Note: Award consequential marks for Net Loss entry. Deduct a maximum of 1 mark for incorrect presentation.

Question 7 (6 marks)

a.

Sheet Music**General Ledger****Prepaid Insurance Expense**

| Date 2022 | Cross-reference | Amount | Date 2022 | Cross-reference | Amount |
|----------------------|------------------------|---------------|----------------------|------------------------|---------------|
| 1/5 | Bank | 15 000 | 31/5 | Insurance Expense | 1 250 |
| | | | | Balance | 13 750 |
| | | 15 000 | | | 15 000 |
| 1/6 | Balance | 13 750 | | | |

3 marks

*1 mark for debit entry Bank.**1 mark for credit entry Insurance Expense.**1 mark for closing and opening balance entries.*

b.

| Explanation |
|--|
| One reason why it is necessary to prepare an adjusted Trial Balance is to ensure that all necessary adjustments to the closing balances of Assets, Liabilities and Owner's Equity are made so that the Balance Sheet is correct. A second reason why an adjusted Trial Balance is necessary is because balance day adjustments are made after the preparation of the pre-adjusted Trial Balance. Balance day adjustments are necessary to uphold the accrual basis assumption to ensure that revenues are recognised when they are earned and expenses are recognised when they are incurred. This will ensure that the Net Profit is accurate and the financial information reported in the Income Statement for the month ending 31 May 2022 is correct. |

3 marks

1 mark for explaining all necessary adjustments to the closing balances of Assets, Liabilities and Owner's Equity and the effect on the Balance Sheet.

1 mark for explaining that balance day adjustments are necessary to uphold the accrual basis assumption and recognise revenue when earned and expenses when incurred.

1 mark for explaining the effect of the adjusted Trial Balance on the accuracy of accounting reports.

Question 8 (12 marks)

a.

Ready Office Supplies**General Ledger****Accounts Receivable**

| Date 2022 | Cross-reference | Amount | Date 2022 | Cross-reference | Amount |
|----------------------|------------------------|---------------|----------------------|------------------------|---------------|
| 1/11 | Balance | 1 320 | 30/11 | Sales Returns | 140 |
| 30/11 | Credit Sales | 4 800 | | GST Clearing | 14 |
| | GST Clearing | 480 | | Discount Expense | 264 |
| | | | | Bank | 3 882 |
| | | | | Balance | 2 300 |
| | | 6 600 | | | 6 600 |
| 1/12 | Balance | 2 300 | | | |

5 marks

1 mark for debit entry Credit Sales and debit entry GST Clearing.

1 mark for credit entry Sales Return and credit entry GST Clearing.

1 mark for credit entry Discount Expense.

1 mark for credit entry Bank.

1 mark for closing balance and opening balance.

Inventory

| Date 2022 | Cross-reference | Amount | Date 2022 | Cross-reference | Amount |
|----------------------|------------------------|---------------|----------------------|------------------------|---------------|
| 1/11 | Balance | 1 780 | 30/11 | Cost of Sales | 2 280 |
| 30/11 | Bank | 3 750 | | Cost of Sales | 2 400 |
| | Accounts Payable | 8 750 | | Inventory write-down | 40 |
| | Cost of Sales | 70 | | Drawings | 150 |
| | | | | Balance | 9 480 |
| | | 14 350 | | | 14 350 |
| 1/12 | Balance | 9 480 | | | |

4 marks

*1 mark for debit entry Bank and debit entry Accounts Payable.
1 mark for credit entries for Cost of Sales and debit entry Cost of Sales.
1 mark for credit entry Inventory write-down and credit entry Drawings.
1 mark for closing balance and opening balance.*

b.

| |
|---|
| Qualitative characteristic: Timeliness |
| Explanation |
| Ready Office Supplies should continue to report monthly as this will enable the business to uphold the qualitative characteristic of timeliness. The business is providing information to decision-makers in time to be capable of influencing decisions. Having this information sooner can enhance the business' capacity to influence decisions. If Ready Office Supplies changed to reporting annually, there would be a lack of timeliness, which can diminish the ability of information to be useful. This is because, generally, the older the information is, the less useful it is. |

3 marks

*1 mark for identifying timeliness as the qualitative characteristic.
1 mark for explaining that reporting monthly upholds timeliness.
1 mark for explaining that reporting annually will not uphold timeliness.
Note: Responses should refer to Ready Office Supplies. Accept responses that use comparability as the qualitative characteristic.*

Question 9 (8 marks)

a.

Roma Coffee Machines**General Ledger****Accrued Interest Revenue**

| Date 2022 | Cross-reference | Amount | Date 2022 | Cross-reference | Amount |
|--------------|------------------|--------|--------------|-----------------|--------|
| 1/7 | Balance | 600 | 31/8 | Bank | 600 |
| 30/9 | Interest revenue | 150 | 30/9 | Balance | 150 |
| | | 750 | | | 750 |
| 1/10 | Balance | 150 | | | |

3 marks

*1 mark for Bank.**1 mark for Interest revenue.**1 mark for opening and closing balance entries.*

b.

Roma Coffee Machines**General Journal**

| Date 2022 | Details | Debit | Credit |
|--------------|-------------------------|-------|--------|
| 30/9 | Cash Sales | 4 950 | |
| | Credit Sales | 9 300 | |
| | Discount Revenue | 300 | |
| | Interest Revenue | 450 | |
| | Profit and Loss Summary | | 15 000 |

3 marks

*1 mark for debit entry Cash Sales and debit entry Credit Sales.**1 mark for debit entry Discount Revenue and debit entry Interest revenue.**1 mark for credit entry Profit and Loss Summary.**Note: Award consequential marks for the Profit and Loss Summary entry.*

c.

| Explanation |
|--|
| By presenting information regarding the revenue earned for the quarter ending 30 September |
| 2022 in a pie chart, Roma Coffee Machines upholds understandability. This is because the financial |
| information is presented clearly and concisely, enabling users with reasonable knowledge of |
| business and economic activities to comprehend it. |

2 marks

*1 mark for stating the financial information is presented clearly and concisely.**1 mark for stating that pie charts enable users with reasonable knowledge of business and economic activities to comprehend the information presented.*

Question 10 (4 marks)

| |
|--|
| Recommendation: Adopt strategy 1 |
| Discussion |
| Due to the increase in the amount of sales projected and given that the owner is concerned about the amount of sales, strategy 1 should be adopted. This is the strategy that best addresses these issues. |
| A positive impact of introducing credit sales is the estimated impact on sales revenue over the three years. In 2023, sales are expected to be higher by approximately \$10 000 when selling on cash and credit compared to selling only on cash. In 2024, the estimated cash and credit sales are expected to be higher by \$12 000. The most significant impact on the total amount of sales is expected to be in 2025, with the gap between cash and credit sales and cash sales only forecasted to be over \$30 000. If the business adopts strategy 2, the cash sales are expected to be lower in each of the years 2023, 2024 and 2025. A positive impact of selling on a cash basis only is that there is no risk of customers not being able to repay. |
| A negative impact of selecting strategy 1 is that the estimated trend shows that Accounts Receivable being written off becoming more unfavourable over the three years. It is expected to increase from \$5 000 in 2023 to \$7 500 in 2024 and then to \$10 000 in 2025. This will lead to an increase in Doubtful Debts expense. Employees will also need to chase up credit customers to ensure they repay, which may increase Wages expense due to additional duties. However, the significant increase in the total sales outweighs this negative impact on Inc. Paper Supplies. |

4 marks

Note: Mark globally; a range of responses are acceptable. The following marking guide has been included for reference.

1 mark for making the correct recommendation.

1 mark for considering a positive aspect of adopting strategy 1 and a negative aspect of adopting strategy 2.

1 mark for considering a positive aspect of adopting strategy 2 and a negative aspect of adopting strategy 1.

1 mark for concluding that the positive aspects of strategy 1 outweigh the negative aspects of strategy 1.