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 SUPPLIER: Pedals					Cost method: Identified Cost					
		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 31 December 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.