

VCE Accounting Unit 4: Nano Exam 8. Marks = 32. Time = 32 minutes.

Leanne manages **CoolGlaze**, a business that trades in double glazing for cash and on credit. The business uses control accounts, the perpetual stock system using the FIFO method of cost assignment and the accrual accounting system.

The following information is provided:

March 23rd 2030:

Purchased 20 units of EcoZone glass from **JustGlass**, at \$220 each including \$20 GST, invoice #JG78.

Received invoice from **Fast Couriers** for delivery of EcoZone glass to **CoolGlaze**, invoice #76. \$198 including \$18 GST.

March 24th 2030:

Sold 12 units of EcoZone glass to **Ace Builders** at \$660 each including \$60 GST, invoice #CG211

1.1 Record the relevant information into the following stock card using product costing.

5 marks

STOCK CARD: EcoZone Glass. FIFO										
2030		IN			OUT			BALANCE		
Date	Details	QTY.	COST	VALUE	QTY.	COST	VALUE	QTY.	COST	VALUE
1/3	Balance							10	190	1900
23/3	JG78/76	20	209	4180				10	190	1900
								20	209	4180
24/3	Inv CG211				10	190	1900			
					2	209	418	18	209	3762

1.2 Record the relevant information into the following journals using product costing: 3 marks

Purchases Journal PJ extract						
Date	Details	Doc.	Stock	GST	Total	
23/3/30	JustGlass	JG78	4000	400	4400	
	Fast Couriers	76	180	18	198	

Sales Journal SJ extract						
Date	Details	Doc.	Cost of sales	Sales	GST	Total
24/3/30	Ace Builders	CG211	2318	7200	720	7920

1.3 Record the transactions in the following records assuming **CoolGlaze** uses period costing.

5 marks

STOCK CARD: EcoZone Glass. FIFO										
2030		IN			OUT			BALANCE		
Date	Details	QTY.	COST	VALUE	QTY.	COST	VALUE	QTY.	COST	VALUE
1/3	Balance							10	190	1900
23/3	Inv. JG78	20	200	4000				10	190	1900
								20	200	4000
24/3	Inv CG211				10	190	1900			
					2	200	400	18	200	3600

Purchases Journal (PJ) extract						
Date	Details	Doc.	Stock	GST	Total	
23/3/30	JustGlass	JG78	4000	400	4400	

Sales Journal (SJ) extract						
Date	Details	Doc.	Cost of sales	Sales	GST	Total
24/3/30	Ace Builders	CG211	2300	7200	720	7920

General Journal (GJ) extract					
Date	Details	General Ledger		Subsidiary Ledger	
		Dr. \$	Cr. \$	Dr. \$	Cr. \$
23/3/30	Cartage inwards	180			
	GST Clearing	18			
	Sundry Creditor: Fast couriers		198		
	Invoice #76				

1.4 Calculate gross profit for March 23 to 24 using product costing and period costing. Show workings.

4 marks

Product costing		Period costing	
Sales: 12 X \$600 =	\$7200	Sales: 12 X \$600 =	\$7200
Less cost of sales	\$2318	Less cost of sales	\$2300
Gross profit	\$4882	Less cartage inwards	\$180
		Gross profit	\$4720

1.5 Explain why profit determination is different for period and product costing using the data above to assist you.

3 marks

Period costing allocates all of the cartage inwards in the current reporting period, \$180, while product costing has only allocated a portion of cartage inwards (2 units X \$9 per unit = \$18) as it is included as part of the product cost. Product costing will report higher profit than period costing due to the lower cost of sales. Note that both results will give the same profit if all units are sold in the reporting period.

1.6 If a Balance Sheet was prepared at the end of March 24th, **identify** which method, product or period, would report the highest value for stock control? **Explain.**

3 marks

The product costing method will report a higher stock control value since each unit of stock has a higher value since it includes not only the unit cost of stock (like period costing), \$200, it also includes a portion of the cartage inwards, \$9, thus total \$209 per unit compared to only \$200 per unit with period costing method.

1.7 Is **Fast Couriers** a trade creditor or sundry creditor? **Explain.**

2 marks

If product costing is used, Fast Couriers is a trade creditor since the cartage inwards is included in the product cost and ends up as part of the total which is posted to the creditors control account. It would have its own subsidiary ledger in creditors ledger. If period costing is used, Fast Couriers is a sundry creditor and would appear in general ledger and not in the creditors subsidiary ledger.

1.8 On 29/4/30 the following information is provided:

29/4/30. Invoice 78.
Purchase of 10 panes of Green Glass at \$550 each inc. \$50 GST. Creditor: Space Age Glass.

29/4/30. Cheque butt.
Paid \$275 inc. \$25 GST cash for delivery of 10 panes of Green Glass to CoolGlaze. #99876.

29/4/30. Cheque butt.
Paid \$220 inc. \$20 GST for delivery of 10 panes of Green Glass to customers of CoolGlaze. #99877.

29/4/30. Invoice #AMP21.
Stock transit insurance on delivery of 10 panes of Green Glass to CoolGlaze. \$11 inc \$1 GST.

1.9 Calculate the product cost of each pane of Green Glass. Show workings.

3 marks

\$500 + \$25 (\$250/10) = \$525 per unit. However could include stock transit insurance, an additional \$1 per unit, since it is logical to do so even though value may be considered 'immaterial' or 'irrelevant' by some businesses: thus \$526 per unit. Also issue of consistency/comparability if this business has allocated low value product costs in past reporting periods.

1.10 Explain why you included or excluded cheque # 99877 in your calculation.

1 mark

'Delivery expenses' do not meet the definition of a product cost which is ... the cost of the stock plus any additional cost to get the stock into a condition and position for sale that can be logically allocated to the product cost. Delivery expenses would be classified as 'other expenses'.

1.11 Identify and **explain** the qualitative characteristic which would help the owner decide if Invoice #AMP21 should be included in the calculation of the product cost.

3 marks

Relevance. Stakeholders should be provided with any information that may impact on their decision making. Is the additional \$1 per unit relevant to stakeholders? The stock transit insurance of \$10 could be reported as a period cost since \$1 per unit is such a 'irrelevant' or 'immaterial' value when compared to the unit cost of \$500.