tsfx
THE SCHOOL FOR EXCELLENCE

HOW WELL DO YOU KNOW YOUR COURSE MATERIALS?

These questions (and many others) will be addressed in detail in the TSFX
"Unit 3 Exam Revision Lectures" in September & October 2020.

UNIT 3 ACCOUNTING

1. Can you explain the effect of using FIFO on the accounting reports during a period of falling cost prices?
2. With reference to qualitative characteristics discuss the use of fair value rather than the original cost?
3. With reference to a qualitative characteristic explain why inventory cannot be recorded at the selling price?
4. Identify the three account names that are used in the GST Clearing account in Unit 3.
5. Distinguish between Current and Non-Current Liabilities.
6. The business sold 5 Predator Bikes for $450 each plus GST. Rec 38. Mark-up 50%. Analyse the effect of this transaction on the accounting equation.
7. A company paid DHL Couriers $198 including GST to have 20 pairs of Lazer Sunglasses delivered. Analyse the effect on the Income Statement & Balance Sheet if the delivery fee was treated as a period cost rather than a product cost if 4 pairs of sunglasses were sold.
8. Explain how a business can have a closing debit balance in the GST Clearing ledger and provide a supporting example.
9. Suggest two strategies to improve inventory turnover.
10. Distinguish between the concepts of 'profit' and 'profitability'

VCE Exam Revision Lectures

Revise. Extend. Maximise Examination Marks.

- Detailed programs to boost examination marks.
- Receive great advice & instruction from **TOP** ranking teachers & **official VCE exam markers.**
- Save **100s of hours** in study time.
- Receive detailed **A+ notes** (not basic summaries).
- Make a **huge impact** on your VCE marks!

Dates: Saturday 19 September – Sunday 4 October 2020
Venue: Interactive, Live Online Lectures

These questions (and many others) will be addressed in detail in the TSFX "Unit 3 Exam Revision Lectures" in September & October 2020.

ANSWERS

1. FIFO assumes that the oldest inventory will be sold first. If cost prices fall during the period then the older more expensive inventory will be costed out first and increase Cost of Sales and decrease Gross Profit. Also, the closing inventory will be valued at the more recent lower cost purchases and this will decrease this figure in the Balance Sheet. Due to the decrease in Gross Profit, Owner's Equity will also be lower in this circumstance.

2. The qualitative characteristic of relevance supports the use of fair values. Relevance outlines that information is relevant when it is capable of making a difference to the decisions made by users. Fair values are more relevant than an asset's original cost as it provides an estimate of the future economic benefits the asset is expected to provide the business from the date it is contributed by the owner. However, the qualitative characteristic of verifiability does not support the use of fair values. Verifiability outlines that the information reported will mean that all users will reach the same conclusion. Fair values should not be used as it is subject to the bias of the owner and can't be checked with reference to a source document. However, relevance outweighs the demands of verifiability as it is better to include the asset valued at a fair value than to not include it at all.

3. Valuing inventory at its selling price assumes that inventory will be sold at that price. There is no recognition that inventory may be damaged or the business may hold a sale and lower the selling price to sell the inventory. As a result of this fact, there is no documentary evidence to support the valuation of inventory at its selling price. The selling price does not provide a real-world valuation as it is not complete, free from error or neutral. It fails on the faithful representation test.

4. BANK - (GST on cash sales, GST on cash payments, and GST refund or settlement)
   Accounts Receivable – (GST on Credit Sales and sales returns)
   Accounts Payable – (GST on Credit Purchase and purchase returns)

5. A liability is a present obligation to transfer an economic resource as a result of past events. A Current liability is reasonably expected to be settled within the next 12 months. Whereas a non-current liability is not required to be settled within the next 12 months after the end of the reporting period.

6. The sales of bikes for cash will result in an increase in assets as the Cash at Bank will increase by $2475 (5 bikes x $495). As the bikes have been sold the inventory of Predator bikes will decrease by the cost price of $1500 as determined by the 50% mark-up. Overall assets increase by $975. Liabilities will increase by $225 as the GST charged on the sale of 5 bikes is an obligation to the ATO. Owner's Equity will increase by $2250 due to the revenue earned on the sale of 5 bikes at $450 each. At the same time Owner's Equity will decrease due to the expense incurred as inventory has now be consumed. Cost of Sales will be $1500 ($2250 / 50% mark-up). Overall Owner's Equity will increase by $750 as a result of the profit on the sale of 5 bikes.

7. If the delivery fee was treated as a period cost the full $180 would be expensed in the period. If treated as a product cost only 4 delivery fees would have been costed out (4 x $9 = $36). Consequently, profit will be lower/understated by $144 if we use period costing. Inventory will be lower by $144 as period costing does not add costs to the inventory items. Under product costing 16 items are still on hand (16 x $9 = $144). Owner's Equity will be lower/understated due to the lower Net Profit.

8. The GST charged on credit purchases and paid on payments for expenses and assets is greater than the GST collected on Cash Sales and charged on Credit Sales. Usually you would expect a credit balance in a profitable business as the selling price on goods is higher than the cost price and this net amount is also greater than operating expenses. However, the business may have purchased an expensive non-current asset during the period and the GST refund on this one transaction may result in a debit balance for GST Clearing.

9. Reduce inventory purchases – hold less inventory. Increase advertising/reduce selling prices to increase sales.

10. Profit is the result when expenses are subtracted from revenue. Profitability is the ability of a business to generate profit measured against a base such as net sales, owner's investment or totals assets.

VIC: Level 3, 99 William Street, Melbourne VIC 3000
Phone: (03) 9663 3311 Fax: (03) 9663 3939

www.tsfx.com.au
admin@tsfx.com.au

NSW: PO Box r1407, Royal Exchange, Sydney NSW 1225
Phone: 1300 364 173 Fax: 1300 364 065