

A+

VCE Exam Essentials

Accounting
Unit 3 – Course Notes

tsix

- ✓ A Complete Guide to the VCE Exams
- ✓ Comprehensive & Detailed A+ Notes
- ✓ VCE Exam Style Questions & Solutions
- ✓ Written by Experienced VCAA Examiners
- ✓ VCAA Examination Standard

tsix

VCE EXAM ESSENTIALS

Unit 3 Accounting

Area of Study 1

Recording and Analysing Financial Data

Area of Study 2

Preparing and Interpreting
Accounting Reports

VCE Accreditation Period
2019 – 2024



www.tsfx.edu.au/vce-essentials

TAFX

Suite 101 & 102
964 Mt Alexander Rd
Essendon, VIC 3040

Phone: (03) 9663 3311
Email: admin@tsfx.edu.au
Web: www.tsfx.edu.au

ABN: 70 066 955 128

www.tsfx.edu.au

VCE EXAM ESSENTIALS 2019 – 2024 EDITION

COPYRIGHT NOTICE

These materials are the copyright property of **TSFX** and are copyright protected under the Copyright Act 1968 (Cth). Reproduction of the whole or part of this document constitutes an infringement in copyright. **No part** of this publication can be reproduced, copied, scanned, stored in a retrieval system, communicated, transmitted or disseminated, in any form or by any means, without the prior written consent of **TSFX**.

Any views or opinions expressed in this booklet are those of the authors' and do not necessarily reflect the official policy or position of **TSFX**.



Acknowledgements

The publisher wishes to thank the Victorian Curriculum and Assessment Authority for permission to reproduce extracts from their publications.

Disclaimers

Every effort has been made to trace and acknowledge copyright.

This publication is not connected with, or endorsed by, the Victorian Curriculum and Assessment Authority (VCAA). Copyright material of the VCAA has been reproduced with permission.

All care has been taken to ensure that materials in this publication are error free.

Every effort has been made to ensure that the questions are consistent with the requirements of the actual VCE examinations produced by the VCAA.

Errata & Bonus Resources

Although great care is taken to ensure that our books are mistake free, an error may appear from time to time. If you believe there is an error in this publication, please let us know asap (admin@tsfx.edu.au).

Errors, as well as additional resources that become available can be found at:

www.tsfx.edu.au/vce-essentials.

CONTENTS

Unit 3 – Area of Study 1 – Recording and Analysing Financial Data

Key Knowledge	1
Key Skills	3
Accounting Assumptions	4
Qualitative Characteristics	6
How to Answer Accounting Theory Questions	9
Accounting Elements	10
Source Documents & The Goods & Services Tax & the General Journal	14
GST	15
The Calculation of GST	16
Classification of GST	17
Documents	18
General Journal	20
Documentation	20
Cash Payments	22
Accounts Payable: Documents, GST and the General Journal	25
Purchase Returns	29
Accounts Payable Turnover	38
Accounts Receivable: Documents, GST and the General Journal	39
Ethical Considerations when Selling Inventory	41
Sales Returns	43
Effect of Sale Returns on Inventory Cards	46
Ethical Considerations Relating to Sales Returns	48
Statements of Accounts – Accounts Receivable	52
Interpret Average Debtors	53
Interpret Credit Sales	53
General Journal: Opening Balances, Corrections, Non-Cash Owner Transactions	56
The General Journal	57
Correcting and Other Unusual Entries	63

Accounting for Inventory	64
Inventory Recording	65
Perpetual Inventory Recording	65
The Inventory Account	66
Inventory Cards	69
Effect of Purchases and Returns of Inventory on Inventory Cards	70
Examples of Purchases & Purchase Returns	71
Effect of Sales and Returns of Inventory on Inventory Cards	73
Examples of Sales and Sales Returns	74
Effect of Accounting Reports When Using FIFO	77
Identified Cost	78
Inventory Gains and Losses	81
Accounting Reports	84
Unit 3 – Area of Study 2 – Preparing and Interpreting Accounting Reports	97
Key Knowledge	97
Key Skills	98
Valuing and Managing Inventory	99
Product Costs vs Period Costs	99
Calculating Cost Price of Individual Units of Inventory	100
Impact on Profit for Both Costing Methods	104
Lower of Cost & Net Realisable Value	114
Efficiency	127
Profit and Loss Determination	137
Determining Profit and Loss	138
Closing Accounts	139
Income Statements	148
Other Revenue	149
Other Expenses	150
Evaluating Profit Results	152
Gross Profit Margin	155

Cash Flow Statement	161
Preparing a Cash Flow Statement from Accounting Reports	162
Cash Flow Statements	163
Distinction Between Cash and Profit	164
Investing Activities	166
Financing Activities	166
Cash Flow Statement Template	167
Do Not Include the Following Items in a Cash Flow Statement	168
Cash Flow Cover	173
Solutions	189



UNIT 3 ACCOUNTING
FINANCIAL ACCOUNTING FOR A TRADING BUSINESS
AREA OF STUDY 1
RECORDING AND ANALYSING FINANCIAL DATA

KEY KNOWLEDGE

- Accounting assumptions and qualitative characteristics
- Documents used by a business to record financial transactions
- The accounting elements: assets, liabilities, owner's equity, revenues & expenses
- Classification of assets into current & non-current
- The effect of transactions on the accounting equation
- Characteristics of the General Ledger with T-form accounts for manual recording
- The GST Clearing account
- The General Journal and General Ledger
 - Establishment of double entry system
 - Cash payments
 - Cash receipts
 - Credit sales of inventory
 - Credit purchases of inventory
 - Sales returns from accounts receivable
 - Purchase returns to accounts payable
 - Inventory write-down
 - Inventory loss or gain
 - Correction of errors
 - Inventory used for advertising purposes
 - Drawings of inventory by the owner
 - Contributions of non-current assets at fair value by the owner
- The purpose and use of the pre-adjusted Trial Balance

KEY KNOWLEDGE

- Inventory cards using the First-In, First-Out (FIFO) and Identified Cost methods for:
 - Inventory sold
 - Inventory purchased
 - Inventory returned
 - Drawings of inventory by the owner
 - Inventory used for advertising
 - Inventory loss or gain
 - Inventory write-down
- Inventory valuation:
 - product and period costs
 - the lower of cost and net realisable value (NRV)
- Internal control procedures to safeguard resources against theft and fraud
 - financial indicators: inventory turnover, accounts payable turnover, accounts receivable turnover
- Non-financial information available to assist analysis and decision-making in relation to inventory, accounts receivable and accounts payable
 - strategies to improve the management of inventory, accounts receivable and accounts payable
 - ethical considerations when making business decisions in relation to operating a trading business

KEY SKILLS

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
 - identify and manually record financial data in the General Journal, General Ledger and inventory cards
 - use ICT to record financial data in the General Journal, General Ledger and inventory cards and to construct graphical representations
 - distinguish between current and non-current assets, and current and non-current liabilities
- explain the purpose of a Trial Balance
- explain and apply appropriate internal control procedures
- analyse the effect of financial transactions on the accounting equation
- distinguish between product and period costs in relation to inventory valuation
 - use ICT, including spreadsheets, to model and analyse the effect of alternative inventory valuation methods and cost assignment methods
 - evaluate the effect of alternative inventory valuation methods and cost assignment methods on the accounting equation
 - discuss strategies to improve the management of inventory, accounts receivable and accounts payable
 - discuss ethical considerations involved in decisions made by owners of trading businesses.

Key skills should be used to prepare for possible questions in SACs and the VCAA exam. Make sure you understand the response required to the various task words. E.g. discuss, analyse & evaluate

KEY KNOWLEDGE

Accounting assumptions and qualitative characteristics.

ACCOUNTING ASSUMPTIONS

- Accepted rules or procedures of **recording** financial data.
- Allows accounting records and reports to be prepared in a similar way, regardless of the type of business or the form of its ownership.
- **GAPE** (first letter of each one) is a way to remember the four accounting assumptions.

Going Concern Assumption	
Definition	It is assumed that the business will continue to operate into the future. The business will have an indefinite life and not be wound up in the near future.
Consequences	<p>Allows accountants to cater for transactions that overlap over two consecutive years (credit transactions).</p> <p>Credit sales and credit purchases of inventory.</p> <p>Accountants can report long-term assets on Balance Sheet compared to being written off as expenses in their year of purchase.</p> <p>Direct Link – The Period Assumption.</p>
The Accrual Basis Assumption	
Definition	<p>Revenue is recognised in the period in which the expected inflow of economic benefits (earned) can be measured in a faithful and verifiable manner.</p> <p>Expenses are recognised when the consumption of goods and services can be measured. (incurred)</p> <p>Accrual basis profit is determined by subtracting expenses incurred from revenues earned in the same period.</p>
Consequences	<p>Reports should reflect the Reporting Period in which a transaction occurs.</p> <p>Direct Link – Relevance Characteristic</p> <p>Direct Link – Going Concern Assumption</p> <p>Direct Link – The Period Assumption</p>

The Period Assumption	
Definition	<p>Reports are prepared for a particular period of time (such as month or year) in order to obtain comparability of results. Profit is determined by subtracting expenses incurred from revenues earned in the same period.</p> <p>A distinction can be made between assets which provide benefit to future reporting periods and expenses that are totally consumed within one reporting period.</p>
Consequences	<p>Direct Link – The Accrual Basis Assumption.</p> <p>Direct Link – Going Concern Assumption.</p>
Entity	
Definition	<p>The records of assets, liabilities and business activities of the entity are kept completely separate from those of the owner of the entity as well as other entities. A separate set of accounting records is maintained for each entity, and the financial statements prepared provide on formation on that entity only.</p>
Consequences	<p>In order to assess the performance of the business, only information relevant to that business is to be included.</p> <p>Business will have separate records (for example, a bank account) from the owner.</p> <p>Direct Link – Relevance Characteristic.</p> <p>Owner Contributes Cash</p> <p>Recorded in the business' records as a capital contribution.</p> <p>Owner Contributes Non-Cash Assets</p> <p>Asset cannot be valued at the original price paid by the owner no source document to verify the sale by the owner to the business. Asset would be recorded at fair value (determined at the time the asset is contributed to the business) .</p> <p>Owner Withdrawals Cash</p> <p>Recorded in the business' records as drawings.</p>

QUALITATIVE CHARACTERISTICS

- Fundamental qualities that affect the way accounting **reports** are prepared.
- **TURFCV** (first letter of each one) is a way to remember the six qualitative characteristics.

Timeliness	
Definition	Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Having information sooner, rather than later, can enhance its capacity to influence decisions, and a lack of timeliness can rob information of its potential usefulness.
Consequences	Monthly reporting would be far better than annual reporting. Business owners can promptly rectify problems and make better strategic planning decisions.
Understandability	
Definition	Understandability requires financial information to be comprehensible to users with reasonable knowledge of business and economic activities. To be understandable, information should be presented clearly and concisely.
Consequences	Present reports in a format that users can understand using headings and sub-headings, totals and sub-totals, graphs, tables or charts.

Relevance	
Definition	<p>Relevant information is capable of making a difference to the decisions made by users. Relevance requires financial information to be related to an economic decision. Information is relevant to a decision if it helps users to form predictions about the outcomes of the past, present or future events, and/or confirms or changes their previous evaluations by providing suitable feedback.</p>
Consequences	<p>Entity Assumption: Balance Sheet</p> <p>Not relevant to include the personal assets of the owner as they are not being used by the business to earn revenue and are not useful for making decisions about future business activities.</p> <p>The Accrual Basis Assumption: Income Statement</p> <p>Include only revenues and expenses from the current Reporting period.</p> <p>Materiality</p> <p>Omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.</p> <p>Depends on the size of the item or error.</p> <p>Materiality Consequences</p> <p>Items that are too small or insignificant to affect decision-making may be considered to be immaterial, meaning they can be reported in the value of a larger item or omitted from the reports.</p> <p>Materiality Example</p> <p>Relevance allows us to omit from the Balance Sheet \$1.95 spent on stationery (as it is such a small amount) and instead report this as an expense.</p> <p>Inclusion (or exclusion) in the Balance Sheet will not affect decision making in any material way.</p>

Faithful Representation	
Definition	Information reported must be a faithful representation of the real world event it represents. The user is assured that the information is complete, free from material error and neutral (free from bias).
Consequences	Allows accountants to include items such as depreciation, fair value, inventory write-downs, and doubtful debts where it is difficult to obtain documentary evidence. Calculations must be free from bias. Direct Link – Verifiability Direct link – Relevance
Comparability	
Definition	The qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Information about an entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.
Consequences	Accounting methods must be applied consistently from one reporting period to the next. Allocation of expenses must be the same from one period to the next.
Verifiability	
Definition	Verifiability means the ability to ensure that different knowledgeable and independent observers can reach consensus that a particular depiction of an event is faithfully represented. Verifiability is 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.
Consequences	Information is accurate if it: <ul style="list-style-type: none"> • Is free from bias and material error. • Avoids the use of estimates. • Can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

HOW TO ANSWER ACCOUNTING THEORY QUESTIONS

IDLWH – IDENTIFY / DEFINE / LINK / WHY? OR HOW?

Identify

A theory question will often ask you to state an Accounting Assumption, Accounting Qualitative Characteristic, Accounting Element or Accounting classification.

Define

The safest way to obtain full marks is to then simply define the term that you have stated in the first part of the question.

Link

You are then strongly urged to link your definition to the specific question asked.

Why? or How?

Finally, you would be impressing the assessors if you were to then explain why we did the thing we did or how we do the thing we did.

Example – 2007 Unit 3 Exam Question 1.1.3

Explain why Assets and Liabilities are classified in the Balance Sheet. In your explanation identify one qualitative characteristic that supports your explanation.

1 + 2 = 3 marks

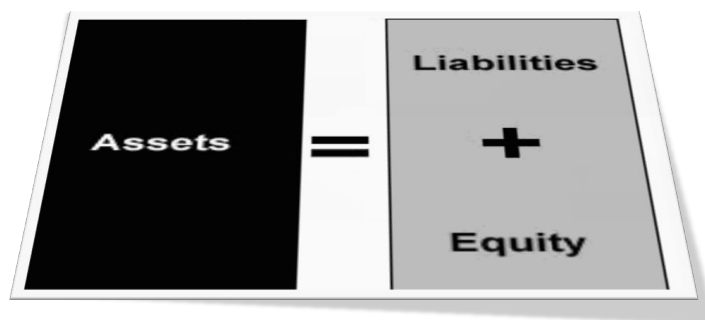
Qualitative Characteristic – Understandability (*identify*)

Reports should be classified in a manner that makes it easy for the user to comprehend their meaning (*define*).

By classifying Assets and Liabilities between Current and Non-Current in the Balance Sheet, it allows users with little accounting knowledge to understand the basics of the report (*link*).

The understandability of reports is enhanced through the use headings and sub-headings, totals and sub-totals (*how*).

ACCOUNTING ELEMENTS



Assets

Definition An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce future economic benefits.

Current Assets: are cash and other types of assets held primarily for the purpose of sale or trading, or are reasonably expected to be converted to cash, sold or consumed by a business within 12 months after the end of a reporting period.

Non-current Assets: are expected to be used by the business entity for a number of years and are not held for resale.

Consequences Recognition

Economic benefit controlled by the business AND cost or other value can be identified.

Definition Criteria	Example – Inventory
Resources controlled by the business	Business now owns the inventory
As a result of past events	Buying the inventory
From which future economic benefits are expected to flow to the business	Intention of selling inventory for a profit and receiving cash

Liabilities

Definition A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

Current liabilities: are obligations of the entity that are reasonably expected to be settled within 12 months after the end of the reporting period.

Non-current liabilities: are obligations of the entity that are not required to be settled within 12 months after the end of the reporting period.

Consequences Recognition

Future sacrifice of economic benefit is probable AND can be reliably measured.

Definition Criteria	Example – Accounts Payable
Present obligation of the business	Business now owes the accounts payable
Arising from past events	Buying the inventory on credit
The settlement of which is expected to result in an outflow of resources from the business	Paying the accounts payable cash

Owner's Equity

Definition Residual interest in the assets of the entity after deduction of its liabilities.

$$\text{Owner's Equity} = \text{Assets} - \text{Liabilities}$$

What is left over for the owner once a business has met all its liabilities.

Revenues

Definition Revenues are increases in assets or decreases in liabilities that result in increases in owner's equity, other than those relating to contributions from the owner. Revenue arises in the course of ordinary activities of a business and includes such items as sales, fees, interest, dividends, royalties and rent.



Consequences Recognition

Transaction can be reliably measured (verified by business documents).

Cash is not a requirement.

Credit sales would be revenue in the form of an increase in an Asset (accounts receivable).

A reduction in a liability may occur if an accounts payable offers a discount for prompt payment (Discount Revenue).

Definition Criteria	Example – Credit Sales
In the form of increase in assets	Balance of Accounts Receivable increases
That result in increases in owner's equity, except for capital contribution	Increase in profit

Transactions that are not revenues:

- GST received and GST refund
- Receipts from accounts receivable customers
- New Loans
- Proceeds from sale of NCA's
- Capital contributions
- Revenues received in advance for future periods e.g. rent

Expenses

Definition

Expenses are decreases in assets or increases in liabilities that result in a decrease in owner's equity, other than those relating to distributions (drawings) to the owner. Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the business. Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation.



Consequences

Assets are often consumed by businesses in order to earn revenue.

Trading business sacrifices goods it owns → sell at a higher price and earn revenue.

Cash is not a requirement.

Inventory loss due to theft would be an expense in the form of a decrease in assets (inventory).

Wages could take the form of an increase in liabilities if it were yet to be paid.

Definition Criteria	Example – Wages
In the form of decreases of assets	Balance of Cash at Bank decreases
That result in decreases in owner's equity, except drawings	Decrease in profit

Transactions that are not expenses:

- GST paid and GST settlement
- Payments to accounts payable
- Purchase of inventory for cash or credit
- Loan repayments
- Purchase of NCA's
- Distributions to the owner (drawings)
- Prepayments relating to future periods (e.g. advertising)

SOURCE DOCUMENTS & THE GOODS & SERVICES TAX AND THE GENERAL JOURNAL



GST (GOODS & SERVICES TAX)

Businesses collect 10% GST from their sales on behalf of the Australian Taxation Office.

Businesses that pay 10% GST on their asset purchases and expenses reduce the amount required for payment to the Australian Taxation Office. The supplier is obliged to pay the 10% to the government.

GST charged on Credit Sales and GST collected from Cash Sales
GREATER THAN

GST charged on Credit Purchases of Inventory and GST paid on expenses and assets
= CURRENT LIABILITY

GST charged on Credit Purchases of Inventory and GST paid on expenses and assets
GREATER THAN

GST charged on Credit Sales and GST collected from Cash Sales
= CURRENT ASSET

Rules!

GST collected from the business' Cash Sales **increases** their GST Liability.

GST charged on the business' Credit Sales **increases** their GST Liability.

GST paid on cash purchases of assets and expenses **decreases** their GST Liability.

GST charged on the credit purchases of inventory **decreases** their GST Liability.

GST CLEARING

Date	Cross Reference	Debit	Date	Cross Reference	Credit
	Accounts Payable ¹			Balance	
	Bank ²			Accounts Receivable ⁴	
	Accounts Receivable ³			Bank ⁵	
	Bank (<i>ATO settlement</i>)			Accounts Payable ⁶	
				Bank (<i>ATO refund</i>)	

1 GST charged by suppliers on credit purchases of inventory

2 GST paid on cash purchases

3 GST credited back to customer as a result of sales returns (cancels obligation to pay GST to ATO)

4 GST charged to credit customers

5 GST received from cash sales

6 GST credited back to suppliers as a result of purchase returns. (cancels entitlement to GST refund from ATO)

THE CALCULATION OF GST

Students may be required to calculate the GST in a variety of ways. For example:

Cash sales \$220 including \$20 GST

Remember to remove the \$20 GST from the cash sales figure.

$$\begin{aligned} \text{Sales} &= \$200 \\ \text{GST} &= \$20 \end{aligned}$$

Cash sales \$220 plus \$22 GST

Simply record the two amounts separately

$$\begin{aligned} \text{Sales} &= \$220 \\ \text{GST} &= \$22 \end{aligned}$$

Cash sales \$220 including GST

You will need to divide the \$220 by 11 to determine the GST amount. Subtract this figure from the \$220 to determine the sales amount.

$$\begin{aligned} \text{Sales} &= \$200 \\ \text{GST} &= \$20 \end{aligned}$$

Cash sales \$220 plus GST

Calculate 10% of the \$220 to determine the GST amount.

$$\begin{aligned} \text{Sales} &= \$220 \\ \text{GST} &= \$22 \end{aligned}$$

To Calculate GST either:

1. Add 10% to the sales price or purchase price.
2. If GST is already included then divide total amount by 11.

CLASSIFICATION OF GST

Credit Balance = Current Liability

GST is a liability as it is a present obligation of the entity to transfer an economic resource as a result of past events and is expected to be settled within 12 months after the end of the reporting period.

Debit Balance = Current Asset

GST is a present economic resource controlled by the entity as a result of past events and is reasonably expected to be converted to cash within 12 months after the end of a reporting period when the refund is received from the ATO.

The GST clearing account will normally have a Credit balance because a business sells inventory at a higher price than its purchase cost. Consequently, a profitable business will usually owe the ATO the net GST figure.

GST received from cash sales and charged to accounts receivable should be higher than GST paid on cash expenses and purchases and charged by accounts payable in a profitable business.

However, if the business has had a number of recent significant purchases (either inventory or non-current assets) then it could have a Debit balance in the GST Clearing ledger in one reporting period.

QUESTION 1

Complete the GST Clearing ledger for January 2020.

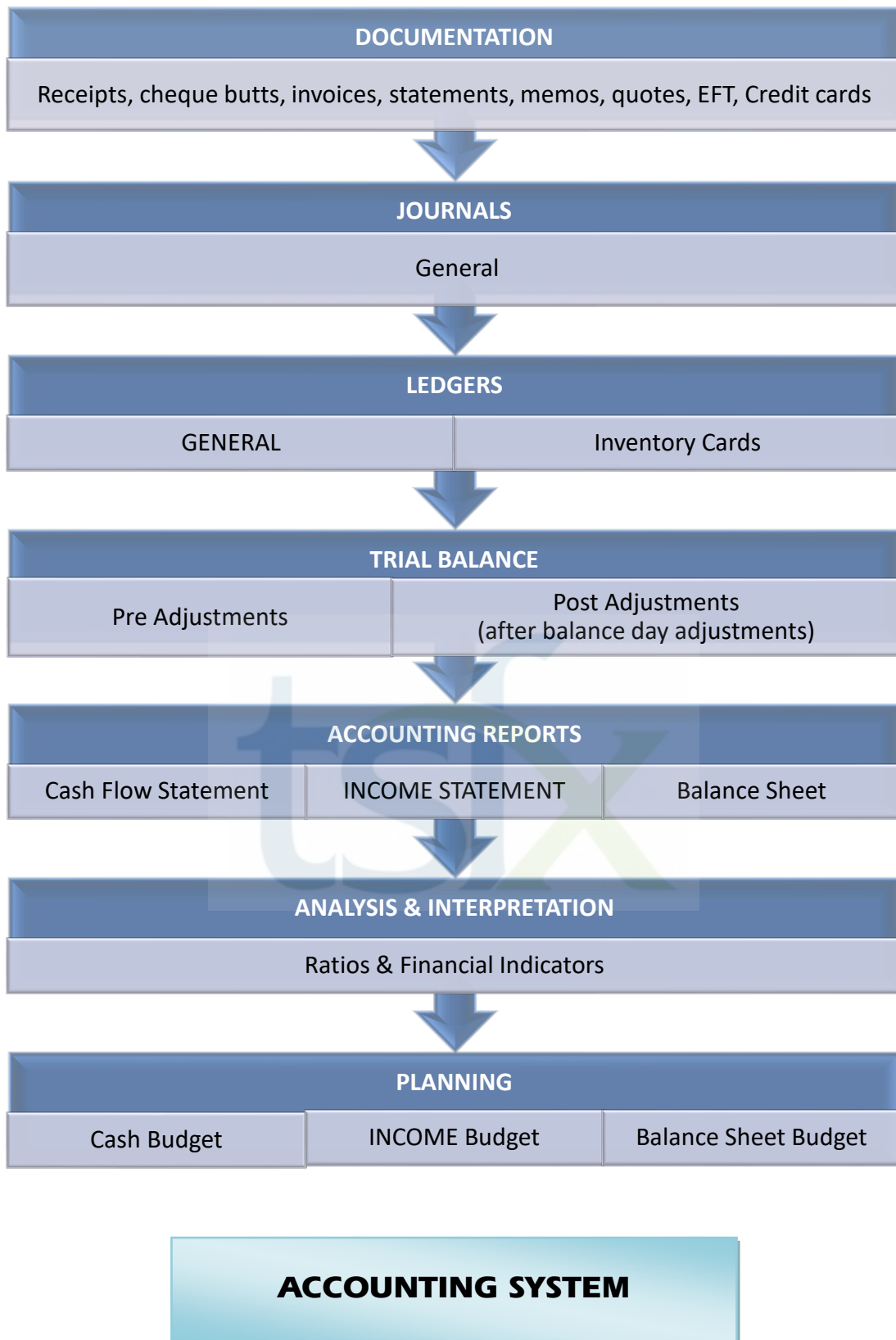
Opening balance GST clearing account	\$300 CR
GST on credit purchases	\$500
GST on credit sales	\$1000
GST on sales returns	\$50
GST on purchase returns	\$20
GST on cash sales	\$800
GST on cash purchases	\$350
GST settlement to ATO	\$300

GST CLEARING

Date	Cross Reference	Debit	Date	Cross Reference	Credit

DOCUMENTS





GENERAL JOURNAL

The General Journal is used to record each transaction before it is posted to the General Ledger.

In Units 1 & 2 Special Journals are used for cash receipts & payments and credit sales and credit purchases.

In Units 3 & 4 we are **only** using the GENERAL JOURNAL to record transactions.

Example: Owner contributes a vehicle at \$25 000 fair value.

General Journal

Date	Details	Debit	Credit
1 Jan	Vehicle	25 000	
	Capital		25 000
	<i>Owner contributed vehicle as per memo No.5</i>		


↑

Each General Journal entry will require a narration which is a brief explanation of the transaction supported by a document reference.

DOCUMENTATION

Relates to the Qualitative Characteristic - VERIFIABILITY

CASH RECEIPTS

DIGGERS INC.	Receipt No. 002
	
20th December 2019	
Received from:	MACRO Organic Stores
The sum of:	One thousand dollars plus GST
For:	Cash sale of Nicola potatoes
	<u>\$1100.00</u>
Signed: Brock Lee	

Inventory is marked up by 100%

Date 2019	Details	Debit	Credit
20 Dec	Bank	1100	
	Cash sales		1000
	GST Clearing		100
	Cost of sales	500	
	Inventory		500
	<i>Cash sale of Nicola Potatoes Rec 002</i>		

This receipt could have been generated by hand or electronically.

It could also be supported by a credit card receipt or an electronic funds transfer confirmation.

Post General Journal to Ledgers

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
20 Dec	Sales/GST Clearing	1 100			

Sales (R)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			20 Dec	Bank	1 000

GST Clearing (A or L)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			20 Dec	Bank	100

Inventory (A)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			20 Dec	Cost of Sales	500

Cost of Sales (E)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
20 Dec	Inventory	500			

CASH PAYMENTS

Cash payments can take several forms today:

For many years, businesses used cheques, however, most payments today are made electronically.


Documentary evidence could be an ATM or EFT document.

A supplier could also accept a credit card payment.

A Bank statement can also be used to confirm payments such as direct debits.

The recording and posting is the same regardless of the payment method.

Cheque Butt – The stub left in the cheque book after mailing the cheque.

Diggers Inc.	
Date:	25th December 2019
Payee:	United Energy
Purpose:	Electricity usage - December
Amount:	\$770.00 including GST
CHQ No. 40	

Date 2019	Details	Debit	Credit
25 Dec	Electricity expense	700	
	GST Clearing	70	
	Bank		770
	<i>Payment for December electricity usage Chq. No 40</i>		

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			25 Dec	Electricity/GST clearing	770

Electricity (E)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
25 Dec	Bank	700			


GST Clearing (A or L)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
25 Dec	Bank	70			

QUESTION 2

Cash Sale Receipt

You are the Accountant for Diggers Vegetables

	Diggers Vegetables
	15 December 2019
Account: xxx xxx xxx 023	
Tomatoes	\$550 Cr
Includes GST of \$50	
Credit card ref: 123 456	

Inventory is marked up by 100%

Date	Details	Debit	Credit

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Sales (R)

Date	Cross-reference	Amount	Date	Cross-reference	Amount

GST Clearing (A or L)

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Inventory (A)

Date	Cross-reference	Amount	Date	Cross-reference	Amount


Cost of Sales (E)

Date	Cross-reference	Amount	Date	Cross-reference	Amount

QUESTION 3

Cash Payment

You are the Accountant for Diggers Vegetables.

Diggers Inc.	
Date: 18 December 2019	
Payee: Spuds Galore	
For: Purchase of inventory (Kipfler potatoes)	
	\$2 200 plus GST
Amount: \$2 420	
	CHQ No. 40

General Journal

Date 2019	Details	Debit	Credit

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount

GST Clearing (A or L)


Date	Cross-reference	Amount	Date	Cross-reference	Amount

ACCOUNTS PAYABLE: DOCUMENTS, GST AND THE GENERAL JOURNAL

Purchasing inventory on credit allows the business to acquire inventory for resale before payment is due to the supplier. This assists with cash flow management as cash from sales can be received before payment to suppliers is required.

Purchasing on credit relates to the Accrual Basis Assumption and the Going Concern Assumption. By assuming the business is ongoing we can record transactions that are due in subsequent periods. Cash does not have to be involved to record the transaction. The inclusion of credit purchases will also provide meaningful and useful information for users of the financial reports. This meets the demands of Relevance.

DOCUMENT

<p>Spuds Galore 20 King Edward Drive Kinglake</p>							
<p>Charge to:</p> <p>Diggers Vegetables 100 Brock Lee Road Drouin</p> <p>Nicola Potatoes</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">600 @ \$12 per bag =</td> <td style="text-align: right;">\$7,200</td> </tr> <tr> <td>Plus GST</td> <td style="text-align: right;"><u>720</u></td> </tr> <tr> <td>Amount Owing</td> <td style="text-align: right;">\$7 920</td> </tr> </table> <p>Terms: 2/7 n/30</p>	600 @ \$12 per bag =	\$7,200	Plus GST	<u>720</u>	Amount Owing	\$7 920	<p>Tax invoice no SG5</p> <p>Date: 18th December 2019</p>
600 @ \$12 per bag =	\$7,200						
Plus GST	<u>720</u>						
Amount Owing	\$7 920						

General Journal

Date	Details	Debit	Credit
18 Dec	Inventory	7 200	
	GST Clearing	720	
	Accounts payable – Spuds Galore		7 920
	<i>Credit purchase of inventory from Spuds Galore Invoice SG50</i>		

General Ledger

Inventory (A)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
18 Dec	Accounts Payable – Spuds Galore	7 200			

GST Clearing (A or L)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
18 Dec	Accounts Payable – Spuds Galore	720			

Accounts Payable – Spuds Galore

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			18 Dec	Inventory/GST Clearing	7 920

QUESTION 4


- a. **Identify** the effect on the accounting equation.

Item	Account Name	Increase Decrease No Effect	Amount \$
Assets			
Liabilities			
Owner's Equity			

ETHICAL CONSIDERATIONS when purchasing Inventory

- b. **Outline** some ethical issues that should be considered by Diggers Vegetables when purchasing their potatoes from Spuds Galore.

Payments to Accounts Payable

Diggers Vegetables		
Date:	30 December 2019	
Payee:	Spuds Galore	
For:	Settlement of invoice SG50	
Amount:	\$7 920	
Cheque No.	25	

General Journal

Date	Details	Debit	Credit
30 Dec	Accounts Payable – Spuds Galore	7 920	
	Bank		7 920
	<i>Cash payment to Accounts Payable - Spuds Galore Chq. No 25</i>		

Bank (A)

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			30 Dec	Accounts Payable – Spuds Galore	7 920

Accounts Payable – Spuds Galore

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30 Dec	Bank	7 920	18 Dec	Inventory/GST Clearing	7 920

QUESTION 5

a. **Identify** the effect of payment on the accounting equation.

Item	Account Name	Increase Decrease No Effect	Amount \$
Assets			
Liabilities			
Owner's Equity			

b. **Explain** why this payment is not an expense.

c. **Explain** why GST is not recorded in this document.
