**APPLICATION EXERCISE 8 – SUGGESTED SOLUTION**

1. **Prepare the General Journal entry required on 30 June 2019 relating to the ‘Wainer’ oven.**

**A narration is required.**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 30/06 | Inventory Write Down | 800 |  |
|  | Inventory |  | 800 |
|  | 6 ‘Wainer’ ovens written down to NRV (Memo 197). |  |  |

1. **Explain how the valuation of the ‘Wainer’ oven effects the Income Statement and the Balance Sheet.**

As the ‘Wainer’ oven is valued at the lower of cost and net realisable value as at 30 June 2019, the Income Statement would see an increase in expenses being an Inventory Write Down. As expenses are higher, profit would be lower.

As the Inventory is valued at the lower of cost and net realisable value, the value of Assets

(Inventory) reported on the Balance Sheet as at 30 June 2019 would be lower. The Owner’s Equity

section of the Balance Sheet would also be lower as a result of the Inventory Write Down expense

reducing profit.