



**YOU BE THE ASSESSOR: UNIT 4 AREAS OF STUDY 2**

**Question 1**

**SAMPLE ANSWER A**

**5 / 8 marks**

The issue with these three entries is that the student has failed to account for the GST involved. Each of these entries needed 'GST Clearing' recorded immediately underneath with an amount for 10% of the Credit Sales amount, the Sales Returns amount and the Allowance for Doubtful Debts amount respectively. The good news for this student is that they have really only made one error and will be penalised accordingly.

**Accounts Receivable**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Balance	32 700 ✓		Bank	189 700
	Credit Sales	202000✗		Sales Returns	1 500✗
				Discount Expense	1 500 ✓
				Allowance for Doubtful Debts	2 000✗
				Balance	40 000 ✓
		234 700			234 700

Technically, the \$100 250 credit entry for Cost of Sales in the Inventory reconstruction is incorrect. The correct amount should be \$101 000, representing 50% of the budgeted Sales. However, due to the budgeted Sales Returns of \$1 500, there should then be a debit entry for Cost of Sales in the Inventory reconstruction for \$750, representing 50% of the budgeted Sales Returns. Luckily for this student, the overall effect on Inventory is a decrease of \$100 205. Consequently, the only error in the Inventory reconstruction is the omission of the \$3 000 for Drawings.

**Inventory**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Balance	72 000 ✓		Cost of Sales	100 250
	Bank	120 250		Inventory Write Down	2 000 ✓
				Balance	90 000 ✓
		192 250			192 250

This student has mistaken the carrying value of the Equipment with balance of accumulated depreciation of the Equipment on the date it is expected to be sold. Instead of recording \$15 200 as the accumulated depreciation entry (\$25 000 - \$9 800), the student has recorded the carrying value amount of \$9 800.

#### Disposal of Equipment

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Equipment	25 000 ✓		Acc. Dep. - Equipment	9 800
				Profit on Disposal of Equipment	3 700 ✓
				Bank	11 500
		25 000			25 000

SAMPLE ANSWER B

8 / 8 marks

#### Accounts Receivable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Balance	32 700		Bank	209 550 ✓
	Credit Sales	202 000		Sales Returns	1 500
	GST Clearing	20 200		GST Clearing	150
				Discount Expense	1 500
				Allowance for Doubtful Debts	2 000
				GST Clearing	200
				Balance	40 000
		254 900			254 900

#### Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Balance	72 000		Cost of Sales	101 000
	Bank	123 250 ✓		Inventory Write Down	2 000
	Cost of Sales	750		Drawings	3 000
				Balance	90 000
		196 000			196 000

### Disposal of Equipment

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Equipment	25 000		Acc. Dep. - Equipment	15 200
	Profit on Disposal of Equipment	3 700		Bank	13 500 ✓
		28 700			28 700

### Question 2

Prepare the Operating section of the Budgeted Cash Flow Statement for the month ending 31 October 2015.

SAMPLE ANSWER A

**1 / 7 marks**

**Terry's Timber  
Budgeted Cash Flow Statement (extract)  
for the month ending 31 October 2015**

	\$	\$
<b>Cash Flow from Operating Activities</b>		
Receipts from Accounts Receivable	55 000 ✗	
Wages	24 900 ✗	
Interest Paid	5 400 ✗	
Purchases of Inventory	18 000 ✓	
Rent	6 000 ✗	
GST Paid	2 400 ✓	
		(1 700)

This student has incorrectly reported the Credit Sales plus GST as the Receipts from Accounts Receivable.

This student has incorrectly added the balance of Accrued Wages at the beginning of the budget period to the amount of Wages paid.

This student has read the question and seen that Interest on the loan is \$5 400 and reported this amount. However, as the Interest on the loan is paid half-yearly in March and October each year, only half of the amount paid is to be reported in the Budgeted Cash Flow Statement for October.

This student has incorrectly seen the statement 'rent is paid three months in advance at \$2 000 per month' and reported this as the amount of Rent paid. As the balances in the question show that Prepaid Rent as having a balance of \$2 000 as at 1 October, this is the expense amount for October.

When asked to prepare a report extract, students must ensure that they calculate and label the final result of the extract. The absence of 'Net Cash from Operations' label above would be viewed negatively when marks are awarded.

This amount is consequentially correct. The cash purchases of inventory and the rent paid are the two items where GST is required to be paid. Even though the amount of rent paid is incorrect, as long as the GST paid is calculated based on the sum total of the Purchases of Inventory and Rent amounts, a mark will be consequentially awarded.

This student has correctly added the October Credit Sales including GST to the Opening Balance as at 1 October 2015 and then deducted the estimated Closing Balance as at 31 October.

This student has correctly identified that Interest on the loan is \$5 400 per annum. As the Interest on the loan is paid half-yearly in March and October each year, only half of the amount paid is to be reported in the Budgeted Cash Flow Statement for October.

As the payment for Prepaid Rent is made in October, the amount reported needs to be the Rent Expense amount for November, December and January. Rent expense is increasing by 10% in December based on the \$2 000 November expense. Therefore, the total amount paid will be the \$2 000 November amount plus December's and January's \$2 200 per month.

**Terry's Timber  
Budgeted Cash Flow Statement (extract)  
for the month ending 31 October 2015**

	\$	\$
<b>Cash Flow from Operating Activities</b>		
Receipts from Accounts Receivable	52 000 ✓	
Wages	23 200 ✓	
Interest Paid	2 700 ✓	
Purchases of Inventory	18 000 ✓	
Rent	6 400 ✓	
GST Paid	2 440 ✓	
<b>Net Cash from Operations</b>		(740)

Prepare a Budgeted Income Statement for the month ending 31 October 2015.

SAMPLE ANSWER A

2 / 5 marks

**Terry's Timber  
Budgeted Income Statement  
for the month ending 31 October 2015**

	\$	\$
<b>Revenues</b>		
Sales		50 000 ✓
<b>Less: Cost of Goods Sold</b>		
Cost of Sales		33 334 ✗
<b>Gross Profit</b>		16 666 ✓
<b>Less: Other Expenses</b>		
Depreciation - Machinery	900	✓
Interest Expense	2 700 ✗	
Rent Expense	2 000	✓
Wages	25 100 ✗	30 700
<b>Net Profit / (Loss)</b>		(14 034)

This student has misinterpreted the statement 'Cost of Sales is 50% of Sales Revenue' by believing the business applies a 50% mark-up and dividing Sales by 1.5 to determine the Cost of Sales amount.

This student has not demonstrated an understanding of accrual accounting. As this is the Budgeted Income Statement for the month of October, even though \$2 700 of Interest was paid in October, only the Interest Expense incurred for October is to be reported.

This student has correctly added the balance of Accrued Wages as at 31 October to the amount of Wages paid during October. However, it needs to be assumed that the Wages paid includes the balance of Accrued Wages as at 1 October and needs to be deducted accordingly.

**Terry's Timber  
Budgeted Income Statement  
for the month ending 31 October 2015**

	\$	\$
<b>Revenues</b>		
Sales		50 000 ✓
<b>Less: Cost of Goods Sold</b>		
Cost of Sales		25 000 ✓
<b>Gross Profit</b>		25 000 ✓
<b>Less: Other Expenses</b>		
Depreciation - Machinery	900 ✓	
Interest Expense	450 ✓	
Rent Expense	2 000 ✓	
Wages	23 400 ✓	26 750
<b>Net Profit / (Loss)</b>		(1 750)

$\$90\,000 \times 12\% = \$10\,800$  per annum  
 $\$10\,800 / 12$  months = \$900

$\$5\,400 / 12$  months = \$450

Wages Paid - \$23 200  
 Less: Accrued Wages (Start) - \$1 700  
 Plus: Accrued Wages (End) - \$1 900

**Question 3**

**Prepare the Budgeted Income Statement for the six months ending 31 December 2018.**

**SAMPLE ANSWER A**

**2 / 8 marks**

**Tippy Toys  
Budgeted Income Statement  
for the six months ending 31 December 2018**

	\$	\$
<b>Revenues</b>		
Sales		(135 000) ×
<b>Less: Cost of Goods Sold</b>		
Cost of Sales		(67 500) ✓
<b>Gross Profit</b>		67 500 ✓
<b>Add: Other Revenues</b>		
Discount Revenue		(7 150)
		74 650
<b>Less: Other Expenses</b>		
Advertising	(8 000) ×	
Depreciation – Shop Fittings	(3 000) ×	
Insurance	(8 400) ×	
Rent Expense	12 000 ✓	
Wages	(42 144) ×	73 544
<b>Net Profit / (Loss)</b>		1 106

This student has simply added the amounts for Sales provided in the question rather than realising that for July, August, September AND October sales is estimated to be \$25 000 per month.

This is another good example of an incorrect amount being marked correct. As the student has correctly applied the 100% mark-up to an incorrect Sales calculation, they will not be disadvantaged.

This student has correctly added the GST to the total Inventory purchases. However, they have applied the 5% discount to this amount instead of deducting the budgeted \$15 000 closing balance of Inventory before applying the discount.

This student has incorrectly allocated the \$9 000 Prepaid Advertising Expense. Even though the amount was paid in November, it does not begin to be consumed until the following month. This student has added two months (November and December) of Prepaid Advertising Expense (\$6 000) to the \$2 000 Advertising Expense paid in July instead of just one (December).

The annual depreciation expense for the Shop Fittings would be \$6 000 using the straight-line method. As the length of the budgeting period is the six months ending 31 December 2018. However, as the Shop Fittings are expected to be purchased on 1 October 2018, only three months of depreciation expense is required to be reported as an expense.

Instead of ignoring the amount of Accrued Wages as at 31 December 2018, this student has incorrectly added the \$144 to the Wages expense for the six months ending 31 December 2018. Only when the Wages paid is provided should any expected Accrued Wages owing be added in order to reported the Wages expense incurred.

Similarly to both the Advertising and Depreciation – Shop Fittings calculations, as the Insurance is being prepaid for the year ended 30 June 2019, and the budgeted period is for the six months ended 31 December 2018, only half of the annual prepayment amount ( $\$8\,400 / 2 = \$4\,200$ ) is to be reported as an expense.

**SAMPLE ANSWER B**

**8 / 8 marks**

**Tippy Toys  
Budgeted Income Statement  
for the six months ending 31 December 2018**

	\$	\$
<b>Revenues</b>		
Sales		210 000 ✓
<b>Less: Cost of Goods Sold</b>		
Cost of Sales		105 000 ✓
<b>Gross Profit</b>		105 000 ✓
<b>Add: Other Revenues</b>		
Discount Revenue		6 400 ✓
		111 400 ✓
<b>Less: Other Expenses</b>		
Advertising	5 000 ✓	
Depreciation – Shop Fittings	1 500 ✓	
Insurance	4 200 ✓	
Rent Expense	12 000 ✓	
Wages	42 000 ✓	64 700 ✓
<b>Net Profit / (Loss)</b>		46 700 ✓

(4 x \$25 000 being July / August / September / October) + \$45 000 (November + \$65 000 (December)

Inventory Purchases plus GST \$143 000  
Less: Estimated Closing Balance \$15 000  
\$128 000 x 5% = \$6 400

Advertising Expense (July) \$2 000  
Plus: (December) \$3 000

$(\$45\ 000 - \$15\ 000) / 5\ \text{years} = \$6\ 000\ \text{per annum}$   
 $\$6\ 000 / 12\ \text{months} = \$500\ \text{per month}$   
 $\$500 \times 3\ (\text{October} / \text{November} / \text{December})$

\$8 400 per annum or \$4 200 for six months