UNIT 3 ACCOUNTING HOLIDAY HOMEWORK DUE 29/1/2015

Question 1

Below are reports for Penny's Pies.

<table>
<thead>
<tr>
<th>PENNY’S PIES</th>
<th>PENNY’S PIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow Statement (extract)</td>
<td>Income Statement</td>
</tr>
<tr>
<td>Month ended 31 March 2010</td>
<td>Month ended 31 March 2010</td>
</tr>
<tr>
<td>Cash Flow from Operating Activities</td>
<td>$</td>
</tr>
<tr>
<td><strong>Inflows</strong></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>10 000</td>
</tr>
<tr>
<td>Debtors</td>
<td>9 000</td>
</tr>
<tr>
<td>Interest Received</td>
<td>500</td>
</tr>
<tr>
<td>GST Collected</td>
<td>1 000</td>
</tr>
<tr>
<td><strong>Outflows</strong></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>(11 000)</td>
</tr>
<tr>
<td>Prepaid Insurance (12 mths)</td>
<td>(1 200)</td>
</tr>
<tr>
<td>Wages</td>
<td>(2 100)</td>
</tr>
<tr>
<td>Accrued Wages</td>
<td>(500)</td>
</tr>
<tr>
<td>Freight</td>
<td>(800)</td>
</tr>
<tr>
<td>Prepaid Rent (6 mths)</td>
<td>(3 600)</td>
</tr>
<tr>
<td>GST Instalment</td>
<td>(2 600)</td>
</tr>
<tr>
<td>GST Paid to Suppliers</td>
<td>(480)</td>
</tr>
<tr>
<td>Net Cash Outflow</td>
<td>(1 780)</td>
</tr>
</tbody>
</table>

Revenue
Cash Sales | 10 000 |
Credit Sales | 12 000 | 22 000 |
Less: COGS |
Cost of Sales | 12 000 |
Freight In |
Gross Profit | 800 | 12 800 |
Less: Stock Loss |
Adjusted Gross Profit | 9 200 |
Add: Other Revenue |
Interest Revenue |
Net Profit | 9 500 |

Less: Other Operating Expenses
Wages | 2 700 |
Insurance | 100 |
Rent | 600 | 3 400 |
Net Profit | 6 100 |

Assume that all debtors pay and creditors are paid in the month after sale/purchase.

Owner/manager Penny says there ought to be a surplus from operations from which she can finance drawings.

She doesn’t understand why there is a net profit alongside a net cash outflow from operations.

Required

Explain why the Cash Flow Statement and Income Statement seem to paint a different picture of the firm’s results, and discuss the proposition that the liquidity of the firm is likely to improve in February. Use specific examples drawn from the data.
Question 2

Bill has commenced a business that sells equipment to dentists. He orders all stock according to each customer’s specifications. His supplier makes deliveries direct to each customer’s surgery.

Bill works from the spare room in his home, and the firm’s only assets are a chair, desk and laptop computer. These cost a total of $8 000.

Bill has a monthly gross profit of around $15 000. All customers pay at the completion of installation, and he pays his supplier within seven days of invoicing in order to gain a discount.

When preparing his annual Income Statement, Bill does not include depreciation of his non-current assets because he finds it too difficult. He writes them off as an expense in the period of purchase.

Required

With reference to one accounting principle and one qualitative characteristic, discuss whether Bill should change his treatment of non-current assets in the annual Income Statement.
Question 3

Required

Discuss the proposition that each of the four accounting principles below is important in decisions taken regarding treatment of non-current assets in the Income Statement and Balance Sheet.

- going concern principle
- conservatism principle
- historical cost principle
- reporting period principle.
Question 4

A client of your accounting practice says that recording prepaid expenses as assets is an unnecessary waste of time. The client accuses you of making things unnecessarily complicated in order to justify your ‘extravagant fees’.

**Required**

With reference to any relevant accounting principles and one qualitative characteristic, **explain** why recording prepaid expenses as assets is necessary.
Question 5

Freda has completed a successful business trip to Switzerland. Her partner accompanied her and attended a number of important social events where Freda entertained customers. Freda spent most days visiting customers’ businesses, while her partner climbed tall mountains. Freda has recorded all the costs of the trip as expenses of her business.

Required

With reference to one accounting principle and one qualitative characteristic, discuss whether Freda should record the cost of the trip for herself and her partner as expenses of her business.
Question 7

Students are to complete all the Chapter 1 Review Questions and Exercises from the Textbook

Students are also to complete all the Chapter 2 Review Questions also from the Textbook