UNIT 3 ACCOUNTING HOLIDAY HOMEWORK DUE 29/1/2015

Question 1

Below are reports for Penny's Pies.

PENNY'S PIES
Cash Flow Statement (extract)
Month ended 31 March 2010

Cash Flow from Operating Activities		
Inflows	**$**	**$**
Sales	10 000	
Debtors	9 000	
Interest Received	500	
GST Collected	1 000	20 500
Outflows		
Creditors	(11 000)	
Prepaid Insurance (12 mths)	(1 200)	
Wages	(2 100)	
Accrued Wages	(500)	
Freight	(800)	
Prepaid Rent (6 mths)	(3 600)	
GST Instalment	(2 600)	
GST Paid to Suppliers	(480)	22 280
Net Cash Outflow		(1 780)

PENNY'S PIES
Income Statement
Month ended 31 March 2010

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