**Answer Chapter 1 to Chapter 4 (accounting)**

**Question 1**

|  |  |
| --- | --- |
| **Accounting Documents** | **Purposes** |
| Delivery note | A [document](http://www.businessdictionary.com/definition/document.html) accompanying a [shipment](http://www.businessdictionary.com/definition/shipment.html) of [goods](http://www.businessdictionary.com/definition/goods.html) that lists the [description](http://www.businessdictionary.com/definition/description.html), and [quantity](http://www.businessdictionary.com/definition/quantity.html) of the goods [delivered](http://www.businessdictionary.com/definition/delivery.html). A [copy](http://www.businessdictionary.com/definition/copy.html) of the delivery note, signed by the [buyer](http://www.businessdictionary.com/definition/buyer.html) or [consignee](http://www.businessdictionary.com/definition/consignee.html), is returned to the [seller](http://www.businessdictionary.com/definition/seller.html) or [consignor](http://www.businessdictionary.com/definition/consignor.html) as a [proof of delivery](http://www.businessdictionary.com/definition/proof-of-delivery.html). |
| Purchase order | A **purchase order** (**PO**) is a commercial document and first official offer issued by a buyer to a seller, A buyer-generated [document](http://www.businessdictionary.com/definition/document.html) that authorizes a [purchase](http://www.businessdictionary.com/definition/purchase.html) [transaction](http://www.businessdictionary.com/definition/transaction.html). When accepted by the [seller](http://www.businessdictionary.com/definition/seller.html), it becomes a [contract](http://www.businessdictionary.com/definition/contract.html) [binding](http://www.businessdictionary.com/definition/binder.html) on both [parties](http://www.businessdictionary.com/definition/party.html).  A purchase [order](http://www.businessdictionary.com/definition/order.html) [sets](http://www.businessdictionary.com/definition/set.html) forth the [descriptions](http://www.businessdictionary.com/definition/description.html), [quantities](http://www.businessdictionary.com/definition/quantity.html), [prices](http://www.businessdictionary.com/definition/price.html), [discounts](http://www.businessdictionary.com/definition/discount.html), [payment terms](http://www.businessdictionary.com/definition/payment-terms.html), date of [performance](http://www.businessdictionary.com/definition/performance.html) or [shipment](http://www.businessdictionary.com/definition/shipment.html), other [associated](http://www.businessdictionary.com/definition/associated.html) [terms and conditions](http://www.businessdictionary.com/definition/terms-and-conditions.html), and identifies a specific seller. |
| Purchase Request | [Document](http://www.businessdictionary.com/definition/document.html) generated by a [user](http://www.businessdictionary.com/definition/user.html) [department](http://www.businessdictionary.com/definition/department.html) or storeroom-personnel to notify the purchasing department of [items](http://www.businessdictionary.com/definition/item.html) it [needs](http://www.businessdictionary.com/definition/need.html) to [order](http://www.businessdictionary.com/definition/order.html), their [quantity](http://www.businessdictionary.com/definition/quantity.html), and the timeframe. It may also contain the [authorization](http://www.businessdictionary.com/definition/authorization.html) to proceed with the [purchase](http://www.businessdictionary.com/definition/purchase.html). Also [called](http://www.businessdictionary.com/definition/call.html) [purchase request](http://www.businessdictionary.com/definition/purchase-request.html) or [requisition](http://www.businessdictionary.com/definition/requisition.html). |
| Goods received note (GRN) | [Record](http://www.businessdictionary.com/definition/record.html) of [goods](http://www.businessdictionary.com/definition/goods.html) received at the point of [receipt](http://www.businessdictionary.com/definition/receipt.html). This record is used to confirm all goods have been received and often compared to a [purchase order](http://www.businessdictionary.com/definition/purchase-order.html) before [payment](http://www.businessdictionary.com/definition/payment.html) is issued. |
| Sale order | A sales order is a document that confirms a sale. It is generated when a buyer communicates that he wants to purchase a product.    It is seller-generated [document](http://www.businessdictionary.com/definition/document.html) that authorizes [sale](http://www.businessdictionary.com/definition/sale.html) of the specified item(s), issued after [receipt](http://www.businessdictionary.com/definition/receipt.html) of a [customer's](http://www.businessdictionary.com/definition/customer.html) [purchase order](http://www.businessdictionary.com/definition/purchase-order.html). A sales order is an internal document of the company, meaning it is generated by the company itself. A sales order should record the customer's originating purchase order which is an external document. Rather than using the customer's purchase order document, an internal sales order form allows the internal audit control of completeness to be monitored as a sequential sales order number can be used by the company for its sales order documents. |
| Payment Voucher | A [document](http://www.businessdictionary.com/definition/document.html) which can be used as [proof](http://www.businessdictionary.com/definition/proof.html) that a [monetary](http://www.businessdictionary.com/definition/monetary.html) [transaction](http://www.businessdictionary.com/definition/transaction.html) has occurred between two [parties](http://www.businessdictionary.com/definition/party.html). In [business](http://www.businessdictionary.com/definition/business.html), a [payment](http://www.businessdictionary.com/definition/payment.html) voucher can be used for a variety of purposes, sometimes taking the place of [cash](http://www.businessdictionary.com/definition/cash.html) in a transaction or indicating that an [invoice](http://www.businessdictionary.com/definition/invoice.html) has been approved for payment. |

**Question 2**

**Required:**

**According to your professional judgment, identify possible frauds or errors for comparative income statements if any with reasonable explanation for any suspicion. (20)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | January  (COGS/Sale) | February (COGS/Sale) | Variance |
| **Sale:** |  |  |  |
| Sale from Computers ……………………….. | 88.89% | 82.00% | -6.89% |
| Sale from Printers ………………………. | 71.43% | 70.00% | -1.43% |
| **Total Sale ……………………………………..** |  |  |  |
| **Cost of Goods Sold:** |  |  |  |
| Computers-COGS ……………………………………. |  |  |  |
| Printers-COGS …………………………………. |  |  |  |
| **Total COGS ……………………………………..** |  |  |  |
| **Gross Profit …………………………………….** |  |  |  |
| **Total Expense:** |  |  |  |
| Advertising …………………………………………….. |  |  | 500 |
| Salary …………………………………………………….. |  |  | 5,000 |
| Electricity ………………………………………….. |  |  | 10 |
| Water supply………………………………………….. |  |  | -10 |
| Rental …………………………………………………… |  |  | 5,000 |
| Telephone and Internet………………………… |  |  | 10 |
| Depreciation………………………………………….. |  |  | -300 |
| Interest expense…………………………………… |  |  | 600 |
| Other expense……………………………………… |  |  | 60 |
| **Total Expense**………………………………………….. |  |  | 10,870 |

**Description and conclusion:**

|  |  |
| --- | --- |
| Cost goods sold divided by Sale from Computers and printers: | Ratio variances from computers and printers are decreased by 6.89% and 1.43% respectively. The following reasons for decreasing as follows:   * Cost per unit fixed, but selling price per unit increase * Cost per unit decrease, but selling price per unit fixed * Cost per unit decrease than selling price per unit decrease * Selling price per unit increase than cost per unit increase   These variances are acceptable. |
| Advertising : | Advertising increased by $500 is acceptable because total sales increase |
| Salary: | Salary should be fixed amount , and salary increase significantly 50% ($5,000/$10,000) is questionable |
| Electricity: | Amount change is small, so its variance is acceptable |
| Water supply: | Amount change is small, so its variance is acceptable |
| Rental: | Rental expense should be fixed amount , and rental costs increase significantly 35.7 % ($5,000/$14,000) is questionable |
| Telephone and Internet: | Amount change is small, so its variance is acceptable |
| Depreciation: | Depreciation expense should be fixed amount except company use reducing balance method or fixed asset disposal for question. |
| Interest expense: | Interest expense should be fixed amount or reducing amount except company borrow more loan, so it is questionable. |
| Other expense: | Amount change is small, so its variance is acceptable |

**Question 3**

1. Based on your professional judgment and company policy, you are required to make accounting policy as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Type of fixed asset | Depreciation method | useful life | residual value |
| Computers | SL | 2 years | 0 |
| Car | Reducing balance, rate of 20%. | 5 years | after 5 years |

Note: Other accounting policies are acceptable.

1. Calculate depreciation expense for 2015

|  |  |  |
| --- | --- | --- |
| Type of fixed asset | Cost | Depreciation Expense |
| Computers | 1,200 | 600 |
| Car | 40,000 | 8,000 |

**Question 4**

You are required to make accounting policy to make cost valuation methods for these stocks.

|  |  |
| --- | --- |
| Type of Stock | Method |
| LCD | Weighted average cost |
| Scanner | FIFO |

NOTE: Other methods are acceptable.

**Question 5**

**Yearly depreciation Policy:**

Yearly depreciation policy may be full depreciation expense in year purchased, but no depreciation expense in year sold.

**Question 6**

**Accrual or cash basis:**

This transaction amount of water supply is immaterial per month, so we should use cash basis rather than accrual basis.

**Question 7**

**Required:**

**Based on your professional adjustment, you are required to prepare and solve the following issues:**

1. **Make Accounting Policy**

Accounting policies for company as follows:

1. Cash at Bank and petty cash

Payment below $100 or $100 will be used petty cash, but above this threshold will be used cheque or cash at bank.

1. Fixed asset

|  |  |  |
| --- | --- | --- |
| Type of fixed asset | Useful life/Rate | residual value |
| Computers | 2 years | 0 |
| LCD | 2 years | 0 |
| Scanner | 2 years | 0 |
| Printer | 2 years | 0 |
| Table | 2 Years | 0 |

In our policy, asset cost per unit less than or equal $50 per unit should be recognized as expense.

1. Cost Allocation of Inventory Per Unit

|  |  |  |
| --- | --- | --- |
| **No.** | **Type of Cost** | **Cost Allocation Policy** |
| 1 | Import tax cost | Specific cost |
| 3 | Other importation cost | Units |
| 4 | Clearance cost | Units |
| 5 | Transportation in | Units |

1. Cost Valuation Methods

|  |  |
| --- | --- |
| Inventories | Cost valuation methods |
| Furniture | FIFO |
| Photocopier | Weighted average |

1. **Prepare practical income statement**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income Statement** | | | | | |  |
| **Global Trading Company** | | | | | |  |
| **The year ended 31 December 2016** | | | | | |  |
| INCOME | |  | |  | Amount |  |
|  | | Sale Income | |  |  |  |
|  | |  | | Sale-Furniture | 16,000 | 20 x 800 |
|  | |  | | Sale- photocopier | - |  |
|  | |  | |  |  |  |
| COST OF GOODS SOLD | |  | |  |  |  |
|  | |  | | COGS - Furniture (1) | 8,648 | 8 x 1,081 |
|  | |  | | COGS -photocopier | - |  |
|  | |  | |  |  |  |
| Gross Profit | |  | |  | 7,352 |  |
| COMPANY’S EXPENSES | |  | |  |  |  |
|  | | Admin Expenses | |  |  |  |
|  | |  | | Utilities Expense | 400 |  |
|  | |  | | Payroll and O.T Exp | 4,000 |  |
|  | |  | | Rent Expense | 3,000 |  |
|  | |  | | Printing & Stationaries | 100 |  |
|  | |  | | Repair & Maintenance | - |  |
|  | |  | | Professional Service Fees | - |  |
|  | |  | | Depreciation Expenses (2) | 2,800 |  |
|  | |  | |  |  |  |
|  | | Marketing Expenses | |  |  |  |
|  | |  | | Marketing | 300 |  |
|  | |  | | Transportation Out | 800 |  |
|  | |  | |  |  |  |
|  | | Company’ s Other Expenses | |  |  |  |
|  | |  | | Miscellaneous Expenses | 750 | 700 + 50 |
| **Total Expenses** | |  | |  | **12,150** |  |
| **PROFIT** | |  | |  | **(4,798)** |  |
| Note: | |  | |  |  |  |
| 1. Cost of Furniture | |  | |  |  |  |
|  | |  | |  |  |  |
| Total COST | | 1,500+50+500+2,000=4,050 | | |  |  |
| COST PER UNIT | | 81 | 4050/50 | |  |  |
| PRICE | | 1,000 |  | |  |  |
| TOTAL COST PER UNIT | | 1,081 |  | |  |  |
| 2. Depreciation Expense | | |  | |  |  |
|  |  | |  | |  |  |
| Type of fixed asset | Useful life/Rate | | Residual value | | Cost | Depreciation Expense |
| Computers | 2 years | | 0 | | 3,000 | 1,500 |
| LCD | 2 years | | 0 | | 700 | 350 |
| Scanner | 2 years | | 0 | | 600 | 300 |
| Printer | 2 years | | 0 | | 500 | 250 |
| Table | 2 Years | | 0 | | 800 | 400 |
| Total |  | | 0 | | **5,600** | **2,800** |

1. **Prepare practical balance sheet**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet** | | | |  |
| **Global Trading Company** | | | |  |
| **31-Dec-16** | | | |  |
| CASH |  |  | Amount |  |
|  | Cash on Hand |  |  |  |
|  |  | Petty Cash (a) | 9,850 | 10,000-50-100 |
|  | Cash at Bank |  |  |  |
|  |  | Cash at Bank | 227,350 | Balancing= |
|  | e-a-b-c-d |
| ACCOUNT RECEIVABLE |  |  |  | - |
| INVENTORY ASSETS |  |  |  |  |
|  | Inventory in Warehouse |  |  |  |
|  |  | Inventory-Furniture (b) | 45,402 | 42 x 1,081 |
|  |  | Inventory- photocopier ( c ) | 14,545 | 20 x 800/1.1 |
| TOTAL CURRENT ASSET | ........ |  | **297,147** |  |
| NET FIXED ASSETS |  |  |  |  |
|  | Computer Equipment |  |  |  |
|  |  | Cost- Computer Equipment | 3,000 |  |
|  |  | Accumulated- Computer Equipment | (1,500) |  |
|  | Office Equipment |  |  |  |
|  |  | Cost- Office Equipment | 1,800 | 700+600+500 |
|  |  | Accumulated-Office Equipment | (900) | 350+300+250 |
|  | Furniture and Fixture |  |  |  |
|  |  | Cost- Furniture and Fixture | 800 |  |
|  |  | Accumulated- Furniture and Fixture | (400) |  |
|  | Vehicle |  |  |  |
|  |  | Cost- Vehicle | - |  |
|  |  | Accumulated- Vehicle | - |  |
|  | Other Fixed Assets |  |  |  |
|  |  | Cost- Other Fixed Assets | - |  |
|  |  | Accumulated- Other Fixed Assets | - |  |
| Total Net Fixed Asset (d)........ |  |  | **2,800** |  |
| TOTAL ASSET |  |  | 299,947 |  |
| ACCOUNT PAYABLE |  |  |  |  |
| OTHER CURRENT LIABILITIES |  |  |  |  |
| LONG TERM LIABILITIES | Tax liability/(asset) |  | (5,255) | Note (4) |
|  |  |  |  |  |
|  | Long Term Liabilities |  | - |  |
| RETAINED EARNING |  |  | 0 |  |
| EQUITY ACCOUNT |  |  |  |  |
|  | Owner’s Capital |  | 310,000 | 10,000 + 300,000 |
|  | Net profit/(loss) |  | (4,798) |  |
|  | Owner’s withdrawal |  | - |  |
|  |  |  |  |  |
| Total Equity and Liability ( e ) | |  | 299,947 | 310,000-5,255-4,798 |
|  |  |  |  |  |
| Note: |  |  |  |  |
| 3. VAT output – VAT input | |  |  |  |
| 8\*2,000\*10%-(5,150+250+20\*800/1.1\*10%)= | | (5,255) | So It is VAT Credit |  |