Asset

Present economic resource controlled by the entity, as a result of past events, that is able to provide economic benefit within or greater than 12 months

Liability

Present obligation of the entity, as a result of past events, that must transfer an economic resource within or after 12

Owner's equity

Residual interest of the firm's asset after reducing liabilities.

Months

Owner's Equity:

Residual interest of the firm's assets after deducting all liabilities.

Why is this treated as a product cost?

This is treated as a product cost because it is a cost incurred in bringing the inventory into a location and condition ready for sale, and can be logically allocated to each unit of inventory. This cost is also considered material so therefore is a product cost.

Why is this treated as a period cost?

This is treated as a period cost because it is a cost incurred in bringing the inventory into a location and condition ready for sale, but cannot be logically allocated to each unit of inventory.
This may not be a material cost so therefore may be treated as a period cost?

Explain the treatment of GST paid

GST would neither be a period or product cost because it is not a cost in bringing the inventory into a location and condition ready for sale. It is not an expense of the business, but simply a reduction in the GST liability owed to the ATO.

Explain why the business would use the FIFO cost assignment method

The business may use the FIFO cost assignment method because the business is unable to physically label each unit of inventory. This allows the business to allocate a cost price to each sale so that they can calculate the cost of sales and therefore net profit. Moreover, this is positive for profitability because the FIFO method is a cost efficient method, as it may require less staffing to label inventory, so that wages expense can be controlled.

However, use of FIFO is not accurate in times of changing cost prices. When prices of inventory are rising, FIFO will assume older cheaper inventory is sold first . This will result in a lower cost of sales and therefore high net profit. FIFO will also assume the newer more expensive inventory is still on hand which can overstate inventory and therefore assets.

FIFO vs Identified

In time of rising cost prices, FIFO assumes the older cheaper inventory is sold first. But in reality, the newer, more expensive inventory may have been sold. Therefore, this will understate the cost of sales and overstate the net profit when compared to the Identified Cost method.

In times of falling cost prices, FIFO assumes the older more expensive inventory is sold first. But in reality, the newer cheaper inventory may have been sold. Therefore, this will overstate this cost of sales and understate the net profit when compared to the Identified Cost method.

Explain benefits of the perpetual system

Reordering of inventory can be assisted by maintaining a continuous record of inventory on hand, so that the owner is aware of when inventory levels are low. This is timely information as inventory can be re-ordered before it runs out and sales are lost.

Inventory losses and gains can be identified by comparing the balances of the inventory card and the physical inventory count. This ensures information is verifiable and provides a faithful representation of the firm's inventory. Discrepancies can be detected and corrective action can be taken such as installing security cameras to prevent theft.

Slow and fast moving lines of inventory can be identified so that inventory can be rotated within the shop or the inventory mix adjusted.

With reference to one Qualitative Characteristic, explain why the business should apply the lower of cost and NRV' inventory valuation rule, with an ethical issue.

When the cost price falls below the Net Realisable Value, it no longer represents a faithful representation of the value of inventory. Instead, the NRV better reflects the real world economic value of inventory. As assets (Inventory) and owner's equity (net profit/capital) are not overstated in the Balance Sheet, it ensures that information reported is complete, free from material error and without bias, thus upholding faithful representation.

The NRV should be used so that it does not mislead users of financial reports such as investors, which may impact their decision making on the business.

Product vs Period

The person is right that the effect will be the same if the person used product or period costs if all inventory is sold within the same period it was purchased. However if not all inventory is sold, then disagree. If product costing.......Compared to period costing this will result in........If period costing......
Overall it is important to differentiate between product and period costs as it allows for a more accurate calculation of inventory which is useful for decision making for the business, for example setting the selling prices that are neither to high nor too low, an adequate gross profit margin.

If delivery charges were treated as a period cost, the entire cost would be incurred an expense in the current reporting period. However, if the delivery charges were treated as a product cost, it becomes part of the cost of the inventory and is only incurred when the inventory is sold. This may not happen until the following reporting period. Therefore unless all inventory is sod, expenses will be lower in this current reporting period if delivery charges are treated as product coast, leading to

How does the Period Assumption assist the calculation of profit?

The period assumption suggests that reports are prepared for a particular period of time, in order to obtain comparability of reports. By doing so, only the revenues earned and expenses incurred during the period are included in the calculation of profit for the period, determining an accurate profit.

How does the Accrual Basis Assumption/ Relevance assist the calculation of profit?

The accrual basis assumption suggests that revenue is recognised when earned and expenses when incurred, so that an accurate profit could be calculated. By only including the revenues earned and expenses incurred during the current period, it allows for profit to be calculated / provides the firm with information capable of making a difference to the decision making of business.

Why close the ledger? - QC/ AA

The accrual basis assumption suggests that revenue is recognised when earned and expenses when incurred, so that an accurate profit could be calculated.
Relevance suggests that financial information reported should be capable of making a difference to the decision making of the business.

Transfer the revenue and expenses accounts to the Profit and Loss Summary accounts to calculate the profit for the period
To reset the revenue, expenses and drawings accounts to zero in preparation for the next period.

What is the purpose of balancing?

The purpose of balancing is to finalise balances for the Balance Sheet and enable the balance to be carried forward to the next period,
upholding Going Concern as assets and liabilities will exist into the future periods
Ensures relevance in the Balance Sheet as only the accurate and up-to-date figures which make a difference to decision making are reported.

Why are asset and Liability accounts not closed?

The Going Concern Assumption suggests that it is assumed the business will continue to operate and records are kept on that basis. Thus assets are not closed because they provide economic recourses expected to generate economic benefit for the firm in the future. Similarly, liabilities are present obligations that must transfer an economic resource some time in the future. They are balanced and carried forward to the next period.

What are the uses of the Cash Flow Statement?

The Cash Flow Statement assesses the firm's performance against its cash targets so that problem areas can be identified and corrective action can be taken to generate more cash inflows or control cash outflows for the next period.

It helps plan for future trading activities by providing a basis for next set of budgeted cash inflows and outflows. It helps to set targets for the future.

It helps calculate financial indicators to support analysis and interpretation such as the Cash Flow Cover to uncover what has happened and to explain why.

- DISCUSS SHORT TERM/ LONG TERM EFFECTS

Decrease average current liabilities

- Just in Time ordering
- Decrease loans by using internal sources??

By using Just in Time Ordering, the business is ordering and holding less inventory. This suggests that it will decrease Accounts Payable if inventory is bough on credit or decrease cash outflows if bought on cash, which means it will either decrease average current liabilities through decreased Accounts Payable or increased Net cash Flow from Operations due to less cash outflows, thereby improving CFC

By conducting advertising campaigns, the business is able to increase customer awareness and attraction. This will increase sales and therefore improve cash inflows through cash sales or receipts from Accounts Receivable if sold on credit. Though, the owner should be aware that the increased cash collected from sales should be able to cover the advertising expense to result in an overall higher net cash flow from operating activities, thereby improving CFC

What are the uses of the Income Statement?

It assesses the firm's performance against its revenue and expenses targets so that problem areas can be identified and corrective action can be taken to improve profit in the next period.

It helps plan for future trading activities by providing a basis for next set of budgeted revenues and expenses - helps to set targets for the future such as sales levels, inventory levels, staffing

Calculate financial indicators to support analysis and interpretation

How to improve profits?

Change selling price

- Decrease to generate higher volume of sales
- Increased to generate greater revenue per sale

Market strategically and effectively

- Increase advertising
- Target more accurately prospective customers

Inventory management

- Maintain inventory mix
- Ensure up to date inventory
- Rotate
- Alternative supplier cheaper COGS but maybe inferior quality

Customer Service

- Staff training to improve knowledge
- Extra services

Management of staff

- Rostering
- Extra training

Management of NCA

- Idle assets should be removed
- When Purchasing new it might be more efficient

Non-financial indicators