

## Scenario

ABC Retail Store, a small business selling electronics, experienced several financial events during the month of May. The owner, Jordan, needs to follow the accounting process to ensure accurate financial reporting and decision-making. Below are the key events that occurred:

1. On May 5th, ABC Retail Store purchased inventory worth \$11,000 (including \$1,000 GST) on credit from a supplier.
2. On May 10th, ABC Retail Store made a sale of \$5,500 (including \$500 GST) on credit to a customer.
3. On May 15th, ABC Retail Store paid \$7,000 to the supplier for the inventory purchased on May 5th.
4. On May 20th, ABC Retail Store received \$3,300 from the customer for the sale made on May 10th.
5. On May 25th, ABC Retail Store incurred operating expenses of \$2,200 (including \$200 GST) and paid it in cash.

## Task

Order the following steps in the accounting process for the events that occurred in the ABC Retail Store during May:

1. **Analysing:** Determine how each event affects the business.
2. **Recording:** Enter financial information about each event into the accounting records.
3. **Classifying:** Sort and categorise similar items together within the accounting system.
4. **Summarising:** Group similar events or items into a format that is easy to understand.
5. **Reporting:** Tell others about the business results in a way that is easy to understand.
6. **Interpreting:** Look at all the reports and interpret the information in the reports.

## Solution – ABC Retail Store

Order the steps in the accounting process based on the scenario provided:

1. **Analysing:**
  - Analyse the purchase of inventory, the sale made, the payment to the supplier, the receipt from the customer, and the payment of operating expenses to determine how these events affect the business.
2. **Recording:**
  - Record the purchase of inventory on May 5th.
  - Record the sale on May 10th.
  - Record the payment to the supplier on May 15th.
  - Record the receipt from the customer on May 20th.
  - Record the payment of operating expenses on May 25th.

3. **Classifying:**

- Classify the inventory purchase under assets and liabilities (Accounts Payable).
- Classify the sale under revenue and assets (Accounts Receivable).
- Classify the payment to the supplier under cash outflows and reduction of liabilities (Accounts Payable).
- Classify the receipt from the customer under cash inflows and reduction of assets (Accounts Receivable).
- Classify the operating expenses under expenses and cash outflows.

4. **Summarising:**

- Summarise the total inventory purchased during the month.
- Summarise the total sales made during the month.
- Summarise the total payments made to suppliers.
- Summarise the total receipts from customers.
- Summarise the total operating expenses incurred.

5. **Reporting:**

- Prepare financial statements such as the income statement and balance sheet to report the business results.
- Include a summary of inventory, sales, payments to suppliers, receipts from customers, and operating expenses in the reports.

6. **Interpreting:**

- Review the financial statements and interpret the overall financial performance and position of ABC Retail Store.
- Analyse key metrics such as profitability, liquidity, and cash flow to make informed business decisions.