

GENERAL COMMENTS

The June examination consisted of two questions with multiple parts to each question. The examination was designed to show increasing difficulty of questions, and also increasing difficulty of parts within questions.

Each question deals with one scenario worth 45 marks. To enable each question to be adequately broken into parts, each scenario deals with differing length time periods. Students must read the question carefully to ensure they understand the period of time being dealt with. Often students do not adequately read the dates provided and this can lead to miscalculation of figures such as depreciation or left out information.

Students should use the Answer book as a guide to how each question should be answered. Reading the Answer book in conjunction with the Question paper should reduce the number of students wanting to record information in Journals when Ledger accounts are asked for.

Having noted comments in the 2003 Assessment Report, it was pleasing to see that very few students reverted to using terms no longer sanctioned in the Study Design and the VCE Assessment Guide 2003.

The balance between theory and practice was again approximately 40:60 and this is expected to continue. This balance covers the whole examination, not necessarily each question.

SPECIFIC COMMENTS

Question 1 – Ruby’s Rugs

1.1.1

Marks	0	1	2	3	4	5	6	7	8	9	Average
%	14	7	7	7	7	9	11	13	13	12	4.8

103

STOCK CONTROL

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
1 June	Balance		38 000	30-6	Drawings	GJ3	500
30-6	Bank	CPJ11	4 000		Advertising	GJ3	2 000
	Creditors	PJ9	30 000		COS	CRJ9	12 000
					COS	SJ8	20 000

104

DEBTORS

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
1 June	Balance		32 000	30-6	Bank	CRJ9	24 300
30-6	Credit Sales	SJ8	39 000	30-6	Discount Exp.	CRJ9	700

502

ADVERTISING

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
16-6	Bank	CPJ11	500				
24-6	Stock	GJ3	2 000				

9 marks

General Ledger

This question was worth 9 marks and should have allowed students to get off to a confident start. The three areas of concern are the large number of students who failed to record or incorrectly recorded the Posting References. This was specifically asked for in the question and needed to be completed to gain full marks. The second area of concern is the number of students who incorrectly title the cross reference in the Ledger Accounts. The cross reference column is where students need to record the title of the other Ledger Account used in the double-entry recording process. Terms such as cash Payments and Purchases were not appropriate. The third area is the incorrect cross referencing of the amount paid by Debtors and the Discount Expense. The correct means of calculating receipts from Debtors and recording of this item has been communicated to teachers and students in a number of forums on many occasions. It is disappointing to see a large number of students not getting this entry correct.

1.1.2

Marks	0	1	Average
%	56	44	0.43

State ONE benefit of using Posting References in the recording process

Benefit Can track individual ledger entry back to originating journal entry. Supports audit trail.

1 mark

Posting References

The answer being looked for here was that Posting References provide a link between Journals and Ledgers and allow Ledger entries to be traced back to their Journal of origin. This answer was hinted at by the requirements of Question 1.1.1 and students who read the questions well picked up on this. Other answers were accepted.

1.1.3

Marks	0	1	2	Average
%	46	33	21	0.75

EXPLAIN, with reference to the definition of an expense why the stock should be treated as an expense

Expenses are consumptions or losses of future economic benefits in the form of
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reductions in assets (in this case, stock) or increases in liabilities of the entity.

The consumption must have occurred and can be measured reliably.
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2 marks

Stock as an Expense

Many students ignored the lead in given in the question and failed to give an accurate definition of expenses. Many students also failed to link the loss of the rugs to a reduction in Assets (stock) thereby meeting the definition of an expense.

1.2.1

Marks	0	1	2	3	4	5	6	7	Average
%	14	7	8	11	16	16	18	11	3.81

RUBY'S RUGS
STATEMENT OF CASH FLOWS FOR MONTH ENDED 31 JULY 2004

Cash Flow from Operating Activities	\$	\$
Debtor collection	34 000	
Cash Sales	22 000	
Creditors	(35 700)	
Stock Purchases	(4 000)	
Wages	(3 000)	
Prepaid Insurance	(6 000)	7 300
Cash Flow from Investing Activities		
Proceeds from Sale of Equipment	6 000	
New Equipment purchase	(30 000)	(24 000)
Cash Flow from Financing Activities		
Loan	10 000	
Capital	4 000	
Drawings	(7 000)	7 000
Net increase (decrease) in Cash		(9 700)
Cash at Bank (1/07/2004)		(800)
Cash at Bank (31/07/2004)		(10 500)

7 marks

Statement of Cash Flows

This is the first time in a number of years that a full Statement of Cash Flows was required and it was good to see so many students accurately classifying the items. The only calculation involved was the deduction of the discounts from receipts from Debtors and Payments to Creditors. Failure to do this cost the student 1 mark as they were treated as aliens. This question provided the first opportunity for assessors to be precise with terminology. The item in the information was identified as Prepaid Insurance and students needed to use the full title.

This question also indicated how well students read the question. The figure for the bank balance given was for the balance at end. Many students reported this item as bank at start therefore disqualifying themselves from gaining full marks.

1.2.2

Marks	0	1	Average
%	53	47	0.46

STATE why the owner has contributed additional capital

Reason Contribution of capital in July to avoid exceeding overdraft limit.

1 mark

Additional Capital

The lead in to the question provided a clue to the required response. The overdraft limit of \$12 000 should have led students to the most appropriate answer. Most students were able to make the connection.

1.2.3

Marks	0	1	2	3	4	Average
%	43	12	14	15	16	1.47

EXPLAIN giving 2 examples from the information above how a business can have a net profit and yet have a significant fall in cash during the same period.

First Example 1. New equipment purchase. 2. Insurance mainly prepaid. 3. Drawings

Second Example

Explanation Not all payments made are classified as expenses whilst they may affect bank

1 + 1 + 2 = 4 marks

Cash versus Profit

Correct responses were limited by the question and the information provided in the Journals. Only a discussion of cash payments that were not expenses was required. Generally students were able to identify at least one such payment. High scoring responses identified that not all cash payments appeared in the Statement of Financial Performance.

1.2.4

Marks	0	1	Average
%	18	82	0.82

Calculation

$(\$30\,000 \text{ less } \$7\,000) / 5 \text{ years} = \$4\,600.$

Depreciation Expense for Year \$ 4 600

1 mark

Depreciation calculation

Generally a very well answered question. A straightforward calculation where the main error was a failure to deduct the salvage value of the asset.

1.2.5

Marks	0	1	2	Average
%	23	20	57	1.34

GENERAL JOURNAL

GJ7

Date	Particulars	Post Ref.	Debit \$	Credit \$
30-6	Depreciation Expense – Equipment		4 600	
	Accumulated Depreciation – Equipment			4 600

2 marks

General Journal entry

A well answered question that allowed for consequential errors from Q.1.2.4. The most common error was the failure to identify the asset that was being depreciated. The General Journal entry must identify the asset – ‘Depreciation – Equipment’.

1.2.6

Marks	0	1	2	Average
%	16	31	53	1.37

	Increase/Decrease	Amount \$
Effect on Profit	Decrease	2 900

2 marks

Effect on Profit

This question was also well answered. The most common error was for students to write the depreciation amount (\$7,500) rather than the difference between the 2 numbers.

1.2.7

Marks	0	1	2	Average
%	39	18	43	1.03

Owner says can change to Reducing balance if they like. STATE what characteristic would be breached. JUSTIFY YOUR ANSWER

Qualitative Characteristic Comparability
Justification That it will become difficult to compare financial information between 2005 and 2006 if the financial information in each year is measured differently.

2 marks

Qualitative characteristic

This question asked for a characteristic not generally examined. Many students confused the characteristic of Comparability with the principle of Consistency. A discussion of consistency was acceptable in the justification.

1.3.1

Marks	0	1	2	3	4	5	6	Average
%	7	4	9	13	16	16	35	4.15

GENERAL JOURNAL

GJ10

Date 2006	Particulars	Post Ref.	Debit \$	Credit \$
30-6	Advertising Expense		400	
	Prepaid Advertising Expense			400
	Electricity Expense		500	
	Telephone Expense			500
	Wages Expense		600	
	Accrued Wages Expense			600

2 + 2 + 2 = 6 marks

Balance Day Adjustments

Three straightforward adjustments were required with only one calculation. Generally well answered with less successful answers not identifying the credit entry as ‘Prepaid Advertising’.

1.3.2

Marks	0	1	2	3	Average
%	38	22	23	16	1.17

508

WAGES

Date 2006	Cross Reference	Post Ref.	\$	Date 2006	Cross Reference	Post Ref.	\$
30 June	Balance		37 000	30-6	P/L Summary		37 600
30-6	Accrued Wages		600				
12-7	Bank		900				

3 marks

General Ledger Account

This question required students to adjust and close a General Ledger account. Some students still treated this adjustment using the expense approach which was disappointing. Many students also failed to either record or record the correct amount for the wages paid.

1.3.3

Marks	0	1	2	Average
%	17	21	62	1.45

	Understate/Overstate	Amount \$
Effect on Liabilities	Understate	600

2 marks

Effect on Liabilities

Students were able to correctly respond to this question. Most students were able to identify understated as the correct response with the amount being the more common error.

1.3.4

Marks	0	1	Average
%	68	32	0.31

Source Document	Cheque Butt
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1 mark

Source Document

Not as well answered as expected. Assessors were asked to accept 'Cheque Butt' as the only response. Many students were content to write 'Cheque' which is an inaccurate response.

1.3.5

Marks	0	1	2	Average
%	59	23	18	0.59

STATE two characteristics of an asset

First characteristic 1. Must generate future economic benefit.
2. Controlled by the entity
Second characteristic 3. Must come about as a result of a past transaction.

2 marks

Characteristics of an Asset

This question caused confusion through the use of the term characteristic. Many students attempted to use qualitative characteristics as a means of answering the question. This was not necessary or appropriate. The question was in reality asking for a definition of an asset.

Question 2 – Tinkler Toys

2.1.1

Marks	0	1	2	Average
%	6	11	84	1.77

Stock Loss or Gain	Gain
Amount	\$400

1 + 1 = 2 marks

Stock Loss/Gain

Straightforward question where a gain was to be identified. This was a change from previous examinations and it was good to see students were able to correctly identify the gain.

2.1.2

Marks	0	1	Average
%	20	80	0.79

IDENTIFY one reason for the stock gain/loss

Reason Oversupply by supplier or undersupply to customer.
Recording error

1 mark

Reason for Stock Gain

As noted in last year’s report, to simply write ‘undersupply’ or ‘oversupply’ was not sufficient. This was the most common error. Despite this the question was well answered.

2.1.3

Marks	0	1	2	3	Average
%	18	12	40	30	1.83

GENERAL JOURNAL

GJ4

Date	Particulars	Post Ref.	Debit \$	Credit \$
2004 30-6	Stock Control		400	
	Stock Gain			400
	N: Stock gain of 5 Fire Engines 4XE (Memo 76)			

2 + 1 = 3 marks

General Journal entry

Students answered this question well. The most common error was failure to write a narration or an adequate narration. Past examinations indicate that narrations will be tested in at least one question and students must carefully read the Question paper.

It is difficult to be formulaic with Narrations, but they must be identifiable with the information provided. In this case students needed to identify the document number or the quantity of stock gained in the narration to gain full marks.

2.1.4

Marks	0	1	2	Average
%	15	58	28	1.12

Stock card:

Model: Fire Engine

Date 2004	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
30 June	Balance							200	80	16 000
30-6	Memo 76	5	80	400				205	80	16 400

2 marks

Stock Card

As in the past, students who failed to score full marks usually had written an incorrect term in the details section of the Stock Card. The correct method of recording in the Stock card is to use the document number. This procedure should be noted by teachers and students.

2.2.1

Marks	0	1	Average
%	14	86	0.85

Calculation

Stock Balance at 30-6	\$2 400
Less Stock Used during year	\$1 600
= adjusted Stock Balance at 30-6-04	\$ 800

Stock of Stationery on Hand \$ 800

1 mark

Stock of Stationery on hand

This was a straightforward question which was generally well answered. Answers demonstrated that students had read the question carefully.

2.2.2

Marks	0	1	2	Average
%	26	26	48	1.22

GENERAL JOURNAL

GJ5

Date 2004	Particulars	Post Ref.	Debit \$	Credit \$
30-6	Stationery Expense		1600	
	Stock of Stationery			1600

2 marks

General Journal entry

This question was generally well answered. The most common error was the use of the number identified in 2.2.1. Another common error was the use of incorrect titles in the entry. The item was clearly identified in the question as a 'stock' and not a 'prepaid' expense.

2.2.3

Marks	0	1	2	3	Average
%	38	14	28	20	1.29

**STATE the characteristic that allows this item to be treated as stationery expense.
EXPLAIN your answer**

Qualitative Characteristic Materiality.
Explanation A small, insignificant amount that, if reported separately, will not unduly influence the decision making of the users of the financial reports.

1 + 2 = 3 marks

Qualitative Characteristic

The only acceptable response was ‘materiality’. Having identified this characteristic, student responses needed to focus on the insignificant amount and its impact (or lack of impact) on decision making. Students tended to identify only one of the two factors.

Responses failing to identify ‘materiality’ could still gain marks if the explanation was acceptable.

2.3.1

Marks	0	1	2	3	4	Average
%	43	20	20	11	6	1.16

GENERAL JOURNAL

GJ6

A ASSUMING DEVALUATION BASED ON CARRYING VALUE

Date	Particulars	P/ Ref	Debit	Credit
30-6	Asset Revaluation		50 000	
	Buildings			50 000
	Devaluation Expense		40 000	
	Buildings			40 000

**OR
B**

30-6	Asset Revaluation		50 000	
	Devaluation Expense		40 000	
	Buildings			90 000

**OR
C**

30-6	Accumulated Depreciation Buildings		60 000	
	Buildings			60 000
	Asset Revaluation		50 000	
	Buildings			50 000
	Devaluation Expense		40 000	
	Buildings			40 000

**OR
D**

30-6	Accumulated Depreciation Buildings		60 000	
	Asset Revaluation		50 000	
	Devaluation Expense		40 000	
	Buildings			150 000

E ASSUMING DEVALUATION BASED ON HISTORICAL COST AMOUNT

30-6	Asset Revaluation		50 000	
	Buildings			50 000
	Devaluation Expense		100 000	
	Buildings			100 000

F

30-6	Asset Revaluation		50 000	
	Devaluation Expense		100 000	
	Buildings			150 000

General Journal entry

This question was identified as the most difficult question on the examination. Assessors devised a number of alternative solutions that would obtain marks. With these alternatives students were able to score better than anticipated.

4 marks

2.3.2

Marks	0	1	2	3	4	Average
%	20	28	22	17	13	1.74

STATE the basis of each principle AND JUSTIFY with reference to a characteristic the accountant's decision

Conservatism principle Losses to be recognised as soon as they appear likely. Gains not recognised until realised.
Historical Cost principle That assets be recorded and reported at purchase price.
Justification Qualitative characteristic is relevance. The information provided to the users of financial information must be relevant in order that they can make accurate decisions on that information.

1 + 1 + 2 = 4 marks

Accounting Principles and Qualitative Characteristics

This question required students to define two Accounting principles and then contrast them through the use of a Qualitative Characteristic. This type of question was new in that students were required to link the principles and characteristics rather than view them in isolation.

2.4.1

Marks	0	1	2	3	4	5	Average
%	42	9	8	9	12	21	2.03

GENERAL LEDGER (extract only) of Tinkler Toys

301 CAPITAL							
Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
30-6	Drawings		65 000	1 July	Balance		548 000
				2005 1 March	Vehicle	GJ 8	12 000
				30-6	Profit/Loss		200 000

302 DRAWINGS							
Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
1 July – 30 June 2005	Bank	CPJ	65 000	30-6	Capital		65 000

304 PROFIT AND LOSS SUMMARY							
Date 2005	Cross Reference	Post Ref.	\$	Date 2005	Cross Reference	Post Ref.	\$
30-6	Expenses		1 200 000	30-6	Revenues		1 400 000
30-6	Capital		200 000				

5 marks

General Ledger entries

This question was generally well done. Most common errors were the failure to close the Drawings account to Capital and the use of 'Net Profit' as the cross reference in the Profit and Loss Summary account.

2.4.2

Marks	0	1	2	Average
%	37	17	46	1.09

DESCRIBE the transaction recorded on 1 March AND IDENTIFY the principle that requires this transaction to be recorded

Description	Capital contribution by owner
Principle	Entity principle.

1 + 1 = 2 marks

Accounting Principle

To gain full marks students needed to clearly identify that the owner had given/contributed/donated a Vehicle to the business. Students who did this tended to then correctly identify the Accounting Principle.

2.4.3

Marks	0	1	2	Average
%	36	25	39	1.02

EXPLAIN with reference to a principle why revenue and expenses are closed to the P/L Summary account

The life of a business entity must be divided into <i>reporting periods</i> , so that the
accountant can establish how the entity is performing (by matching all revenues against
all expenses for each period.). To zero off accounts for the next reporting period.

2 marks

Accounting Principle

Students needed to identify 'Reporting period' as the principle and then discuss calculation of profit. A recognition of revenue and expense accounts not carrying into the next period was considered an acceptable second point.

2.4.4

Marks	0	1	2	3	4	Average
%	20	12	18	24	26	2.23

TINKLER TOYS
STATEMENT OF FINANCIAL PERFORMANCE (extract only)
FOR YEAR ENDED 30 JUNE 2005

Revenue	\$	\$
Sales		1 395 000
less Cost of Goods Sold		
Cost of Sales	800 000	
Freight In	4 000	804 000
Gross Profit		591 000
less Stock Loss		1 000
Adjusted Gross Profit		590 000

4 marks

Statement of Financial Performance (extract)

Given that templates for reports have been published on the VCAA website, responses for this question were disappointing. Including discount revenue and expenses showed a lack of knowledge of the appropriate format. Many students also failed to distinguish between Cost of Sales and Cost of Goods Sold.

2.4.5

Marks	0	1	2	3	Average
%	26	18	37	19	1.48

TINKLER TOYS
STATEMENT OF FINANCIAL POSITION (extract only)

Current Liabilities	\$	\$
Bank Overdraft	140 000	
Creditors	60 000	
Accrued Wages	2 400	
Loan	10 000	212 400

3 marks

Statement of Financial Position (extract)

This was a fairly standard question. Similar questions in past examinations have focused on different sections of this report. The items not included by less successful students were Bank Overdraft and the current portion of the Loan.

2.5.1

Marks	0	1	2	Average
%	34	17	49	1.15

Revenue Recognised at 30 June 2006	\$
Point of sale	900
Point of cash transfer	90

2 marks

Revenue Recognition

Two numbers were required with little calculation required. Most students were able to correctly identify the amounts.

2.5.2

Marks	0	1	2	Average
%	45	30	24	0.78

EXPLAIN why the Point of Sale method is more appropriate for this business.

Explanation
Because Tinkler Toys now <i>offers credit terms</i> on sales, revenue recognition at point of sale becomes more appropriate. This method of revenue recognition is seen to be a <i>more accurate method</i> because it is better able to <i>match revenues earned against expenses incurred each accounting period</i> .

2 marks

Point of Sale method

A key component of high scoring responses included the statement that the business was now offering credit terms. This was indicated in the scenario and needed to be included. The accuracy of the point of sale method was the second point required. Most students were able to identify one of these points.

2.5.3

Marks	0	1	2	3	Average
%	38	20	17	25	1.28

	Assets			Owner's Equity		
Item	Increase/Decrease	\$	Item	Increase/Decrease	\$	
Bank	Increase	90	Capital	Increase	500	
Debtor	Increase	810				
Stock	Decrease	400				
Overall	Increase	500	Overall	Increase	500	

3 marks

Two-fold effect

Although set out in an unconventional format, this question asked for students to identify the two-fold effect of a transaction. With lead ins provided in the Answer book better responses were expected. Students need to ensure they understand what is meant by the two-fold effect.