

2003

Accounting GA 3: Written examination 2

GENERAL COMMENTS

This examination completed the assessment cycle for the reaccredited Accounting Study in 2003, with teachers and students in keen anticipation as to how new topics such as GST would be examined. The end-of-year examination consisted of two questions worth 90 marks overall.

For June there was a clear distinction between the mean score for marks achieved in Question 1 compared to Question 2. In this examination the distinction was more between marks achieved for theory questions compared to those for practical tasks.

Students faced two issues with theory questions. The first was in interpreting exactly what was required by the question and the second in providing an adequate response, particularly when more than 1 mark was awarded to that question. Responses were often inadequate because too much time was wasted with students ignoring the lead in and rewriting the question. This is made worse when students respond in sentence form, thinking they supplied more content than they actually have. Sufficient detail must be given in response to theory questions for students to achieve maximum marks.

Students handled other general issues such as time management and record setting out, (such as for journals), and continue to be very well drilled in basic techniques. It was particularly pleasing to see how students showed their working out for calculations. Very few students used outdated terminology such as 'profit and loss statements' instead of the correct 'Statement of Financial Performance'. However, incorrect titles such as 'credit purchases' instead of 'stock' continue to cost students marks.

Examiners included 'decision making' based questions in Question 1 involving accounting ratios. This topic would be regarded as being higher on the difficulty scale and teachers may have expected it to be placed in Question 2. It may be regarded as a decision by the examiners that sends a message that this topic is 'accessible' to everyone.

SPECIFIC INFORMATION

Question 1

1.1.1

Marks	0	1	2	3	4	Average
%	18	12	10	16	44	2.57

General journal – returns in

This question was reasonably well handled by most students. Those who had difficulty invariably treated the transaction as a sales return. Often some marks were still gained as assessors acknowledged the nature of the error. Students successfully recognised the general and subsidiary ledger aspects of the transaction and had little trouble with narrations. Entries in the subsidiary ledger were not required for the itemised stock returned to the business. Although not mandated for the assessment of the question, the inclusion of the source document number C/N C23 is to be encouraged by teachers.

1.1.2

Marks	0	1	2	3	4	5	6	7	Average
%	16	6	5	7	10	15	21	20	4.18

Creditors control

Students had varying difficulty gaining marks for this question. The first mark was for the opening balance and was the easiest to obtain. The other entry on the credit side was for the stock of \$13 900. Marks were most commonly lost for having an incorrect title such as credit purchases instead of stock. Three (or four) entries were required on the debit side of the ledger. The recognition of the return of stock by the creditor to the supplier was fine provided students responded correctly in 1.1.1. However, those who mistakenly recognised the returns as being outward left consequential errors with which assessors had to contend. Many students failed to treat discount correctly. The double counting, or ignoring of discount, occurred too often and a significant number of students only showed 'bank' as a title and did not show discount. This is a result of showing bank and discount on the same line rather than as separate transactions. The closing balance was well handled with consequent errors allowed for. Finally, students were required to show the correct dates and posting references; this caused little difficulty. Many students itemised the Bank/discount and stock entries rather than presenting totals.

1.1.3

Marks	0	1	2	3	4	Average
%	15	8	18	26	33	2.52

Subsidiary creditors ledger

Consequential errors followed from the original incorrect assumption that the returns were in and not out. Other consequential errors such as incorrect titles including purchases returns and credit purchases also featured. In contrast to the previous question a number of students chose to total the two bank entries and use the closing date, June 30. The reversing of all debit and credit entries was also a regular event. Some students included all stock purchased and cash paid to creditors, suggesting they did not really understand the nature of this account.

1.1.4

Marks	0	1	2	Average
%	45	25	30	0.85

Control procedures

Assessors, seeking consistency, applied the technique of awarding 1 mark for 'what happens' and the second mark for the effect or consequence of that event.

Students had to outline an accounting control procedure for detecting errors in the Creditors subsidiary ledger. Correct answers focused on preparing a schedule of creditors, the *total* of this schedule being compared with the *balance* of the Creditors Control account. A discussion relating to the 'separation of duties' was also permitted.

1.2.1

Marks	0	1	Average
%	43	57	0.57

Increases in creditors turnover – positive

The positive effect was that in delaying payment the business now had more cash on hand albeit temporarily. No more was required and most students answered correctly.

1.2.2

Marks	0	1	Average
%	46	54	0.54

Increases in creditors turnover – negative

It then followed 1.2.1 that the negative response would be to the disadvantage of the business. Students who imagined what they would do to failing debtors and reversed that logic to creditors came up with appropriate answers such as failure to gain discount, refusal of further credit and damage to the business reputation.

1.3

Marks	0	1	2	Average
%	24	25	51	1.26

Stock turnover

Most students were able to link an improvement in stock turnover to increased sales and increased gross profit. Some students discussed money which was irrelevant. Other students correctly indicated an increase in Gross profit yet suggested that this was due to a decrease in cost of sales, when in fact the cost of sales increased.

1.4

Marks	0	1	2	Average
%	37	42	21	0.83

Improving the gross profit ratio

The key word in this question was 'ratio'. To simply increase gross profit by increasing sales for instance gained no marks. The examiners required answers such as an increase in the selling price at a faster rate than cost price or alternatively the reduction in unit costs while holding the selling price constant. With 2 marks at stake this question clearly discriminated between students.

1.5

Marks	0	1	2	Average
%	50	10	40	0.89

Non-financial indicators of performance

Failure to gain marks occurred when students decided to discuss *financial* indicators. This was unfortunate as once students had recognised the difference between financial and non-financial indicators this was not a difficult question.

1.6.1

Marks	0	1	2	3	4	5	6	Average
%	7	2	5	10	16	32	28	4.31

GST clearing account

Students had to make six entries and gained 1 mark for each correct response. It was important that the title for the closing entry be recorded as 'balance' in this case. In future examinations students will need to be wary as to whether the account is settled at the end of the month or carried on as this affects the title. The mean score for this question did not reflect the quality of student performance in recording GST. Given the predictability of the question, students should not have reversed debit and credit entries and used inappropriate titles. Students also combined the two payments of cash. This is not correct as one payment was to suppliers and the other to the ATO.

1.6.2

Marks	0	1	2	3	4	Average
%	31	14	18	10	27	1.86

Classification

A more frequent comment in recent years relating to examination technique is the need for students to be more precise in their language. This question was an illustration of that comment where students classified the balance of the GST clearing account as a liability and not as a current liability. This was a common error and caused a 1-mark loss. This good question discriminated well between students. The incorrect suggestion that payments to the ATO be reported in the Statement of Financial Performance was a frequent error.

1.7

Marks	0	1	2	3	Average
%	4	4	46	46	2.35

Sales journal

In this question students had to record the sale of goods on credit including the charging of GST. Generally well answered, the most common error was in determining the cost and selling price of the goods sold.

1.8.1

Marks	0	1	2	Average
%	36	16	48	1.11

Qualitative characteristics

Students got their chance to use the response 'materiality'. The second mark required justification and terms such as 'insignificance', 'immaterial' and being less than 10 per cent all gained a mark. To state that the shipping cost could not be identified with the particular item of stock was not correct in this case.

1.8.2

Marks	0	1	2	Average
%	56	19	25	0.69

Period and product costs

It followed from the previous question that students would have to explain whether a certain item was a product or a period cost. The answer was that the shipping fee was a period cost. The effect on net profit was an increase in expenses and a decrease in net profit. This was a challenging question and students had to recognise that if the shipping costs were treated as a period cost *all* the cost would be recognised whereas if a product cost only those costs attached to stock sold would be recognised. Many students had difficulty understanding the difference and teachers should use this question as a teaching aid in future years.

1.9

Marks	0	1	2	3	Average
%	16	8	40	36	1.96

Stock writedown

One mark was given for the calculation of \$1800 as the amount written down. Not all students obtained this answer and \$1500 and \$1200 were frequent responses. The debit and credit entries were more successfully managed. As stated in 1.1.1 students were not required to make an entry in the subsidiary ledger for stock written down.

Question 2

2.1.1

Marks	0	1	2	3	Average
%	43	15	24	18	1.18

Calculation of drawings

When calculating amounts students are strongly encouraged to select an approach they are familiar with; in this case the reconstruction of the Capital account. This 'template' approach provides a structure that simplifies the problem. The performance of students in responding to this question was mixed and it matched the comment made about the approach selected. A number of students left out the contribution of \$10 000 cash to the business by the owner.

2.1.2

Marks	0	1	2	Average
%	32	46	22	0.90

Factors relating to drawings by the owner

Students were able to discuss the effect on cash and profit, or on their personal needs. More successful responses then mentioned the effect on liquidity and the recognition of the efforts of the owner.

2.1.3

Marks	0	1	2	3	4	Average
%	49	17	20	7	7	1.06

Cash versus profit

The repayment of the loan was the more frequent response and was correct. This was a straightforward response and treated accordingly. Although there are a number of reasons as to why profit and the change in bank may differ there were not many available from the data provided. In fact the only other acceptable response was that less cash had been generated from debtors than the increase in profit resulting from increased sales. This concept continues to puzzle most students despite being an acceptable response for most examinations. Many students only referred to the change in debtors or to credit sales alone and failed to link the two items.

2.2

Marks	0	1	2	Average
%	42	43	15	0.72

Working capital and the effect on liquidity

Students were misled by the high working capital ratio remaining and this flawed many answers. Students must realise it is only a ratio, and those who did converted to dollar amounts. They then went on to point out that if the decline continued then the business may be forced to borrow money to meet short-term needs. More successful responses started off with a definition of working capital.

2.3

Marks	0	1	2	Average
%	50	32	18	0.68

The gearing ratio and financial stability

In both 2.2 and 2.3 answers were far more likely to be incomplete rather than incorrect. Most students were able to explain what gearing shows. Responses should then have highlighted the consequence of the change in the particular ratio.

2.4.1

Marks	0	1	2	Average
%	46	38	16	0.69

Managing the cash cycle

Most responses to this question were vague and failed to point out that the delay in cash returning to the business results in additional costs resulting from cash shortfalls.

2.4.2

Marks	0	1	2	Average
%	22	11	67	1.45

Listing ratios

A simple question requiring the relevant ratios to each part of the cycle to be identified. This question would be of value in the classroom as a visual presentation of the cash cycle.

2.5

Marks	0	1	2	3	4	5	6	7	Average
%	14	5	4	4	7	5	10	51	4.96

General journal

Two general journal entries were required, for a contra entry and for bad debts. Most errors centred on the reversing of debit and credit entries, failing to distinguish between general ledger and subsidiary ledger entries and confusion over dollar amounts. Students handled this question very well.

2.6.1

Marks	0	1	2	Average
%	33	48	19	0.85

Variance analysis

There was 1 mark for the effect on payments and the second for the effect on bank. Students who had difficulty with this question did so because they wanted to discuss profit rather than cash.

2.6.2

Marks	0	1	2	Average
%	26	35	39	1.13

Unfavourable consequences

Most students successfully pointed out how the decline in sales is linked to advertising; however, they did not go on to explain how advertising promotes business products.

2.6.3

Marks	0	1	2	Average
%	14	13	73	1.58

Cash payments

There were only two possible responses, the loan and the decrease in payments to creditors. The loan was the more frequently correct response.

2.7.1

Marks	0	1	2	3	Average
%	23	10	21	46	1.90

Receipts from debtors

Students had to calculate receipts from debtors. Comments in 2.1.1 are pertinent to this question. The omission of credit sales and the incorrect treatment of discount were common errors. This question should not have caused the level of difficulty students experienced. The preparation of a basic Debtors Control account is not demanding. Students must be prepared to go back to the basics when answering this type of question and when they do they will find the correct response falls into place.

2.7.2

Marks	0	1	2	3	4	5	Average
%	23	15	16	17	17	12	2.27

Cash budget

This report was limited to the determination of estimated cash payments. Students who combined loan repayment and interest on loan were penalised. However, it was decided not to penalise students who used the title of 'rent' rather than 'prepaid rent expense'. The later title is the preferred option of examiners as it correctly indicates the payment source. It also indicates that not all of the payment may be an expense in the current reporting period. Other frequent errors included the adding of the accrued wages to wages and the inability to determine the amount of drawings.

2.7.3

Marks	0	1	2	Average
%	29	33	38	1.08

Frequency of reporting

This question is frequently asked by examiners. It was reasonably well answered with the major fault being unwillingness on the part of students to provide sufficient depth in their response.

2.8.1

Marks	0	1	2	3	Average
%	32	15	28	25	1.45

Accrued revenue in the subsequent period

Although no surprise to students this had a fairly high level of difficulty. Perhaps students were expecting the question to be in ledger form or simply had difficulty with balance day adjustments in the general journal. Students reversed entries, used incorrect titles and determined the wrong amount. Difficulty with this question flowed on to 2.8.2 and also raised the possibility of consequential errors.

2.8.2

Marks	0	1	2	Average
%	84	3	13	0.28

Cash receipts

Students found this the most difficult question on the paper and it may be argued that as this question was last, students had been running out of time. Students were confused about the dollar amounts involved, the appropriate columns to use and that two entries were required.

Question 1 – Potter Electrical Appliances

1.1.1

GENERAL JOURNAL

GJ 2

Date 2003	Particulars	Post Ref.	Debit \$	Credit \$	Debit \$	Credit \$
8/6	Creditors Control		750			
	<i>Stock Control</i>			750		
	<i>Creditor – Sparky Systems</i>				750	
	<i>N: Faulty goods returned C/N C23</i>					

1 + 1 + 1 + 1 = 4 marks

1.1.2 General Ledger (extract)

CREDITORS CONTROL

201

Date 2003	Particulars	Post Ref.	\$	Date 2003	Particulars	Post Ref.	\$
8/6	<i>Stock Control</i>	<i>GJ2</i>	750	1/6	<i>Balance</i>		41 200
30/6	<i>Bank/ 13 700 Discount</i>	<i>CPJ 14</i>	13090 610	30/6	<i>Stock Control</i>	<i>PJ 9</i>	13 900
30/6	<i>Balance</i>		40 650				
			55 100				55 100

7 marks

1.1.3 Subsidiary Ledger (extract)

CREDITOR –Sparky Systems

C4

Date 2003	Particulars	Post Ref.	\$	Date 2003	Particulars	Post Ref.	\$
4/6	<i>Stock Control</i>	<i>GJ 2</i>	750	1/6	<i>Balance</i>		13 500
14/6	<i>Bank</i>	<i>CPJ 14</i>	3 500	12/6	<i>Stock Control</i>		9 500
29/6	<i>Bank</i>	<i>CPJ 14</i>	2 000				

4 marks

1.1.4 Explain one accounting control procedure the business could use to detect errors in the Creditors Subsidiary ledger

Complete a schedule of creditors in order to reconcile individual creditor balances against control account balance.

OR separation of duties to provide internal control and prevent fraud.

2 marks

1.2.1 Identify a positive trend of CTO increasing

By delaying payment, owner allows herself more time in which to collect cash from credit sales. Cash in bank for longer means increased interest revenue or decreased overdraft costs.

1 mark

1.2.2 Identify negative trend of CTO increasing

By delaying payment, owner forgoes any discount allowable on early repayment, and subjects herself to unfavourable trading conditions/terms.

OR reversal of debtor collection issues

1 mark

1.3 Explain how improvement in STO could lead to an increase in Gross Profit

Greater stock turnover implies stock sold on a more regular basis. If margin remains steady then Gross Profit increases. Increase in Cost of sales as a result of an increase in sales

2 marks

1.4 State two ways the owner can improve the Gross Profit Ratio

Increase selling price without any significant increase in COGS.
 Reduce cost of stock purchased (bulk buying/changing suppliers) without any significant decrease in selling price.

1 + 1 = 2 marks

1.5 Explain one non-financial key performance indicator that could be used to analyse the performance of the business

Customer satisfaction/surveys/Quality assurance/Quality of management/Cash Register Rings. Setting up a Website

2 marks

1.6.1**GST CLEARING ACCOUNT****210**

Date 2003	Particulars	Post Ref.	\$	Date 2003	Particulars	Post Ref.	\$
31/7	Bank		6 500	1/7	Balance		6 500
	Bank		4 800	31/7	Bank		8 400
	Creditors Control		7 200		Debtors Control		12 500
	Balance		8 900				
			27 400				27 400

6 marks

1.6.2

Item	Report	Classification
Balance of GST Clearing a/c	Statement of Financial Position	Current Liability
Payment to ATO	Statement of Cash flow	Operating Activities (outflow)

2 + 2 = 4 marks

1.7**SALES JOURNAL****SJ 10**

Date 2003	Debtor	Post Ref.	Invoice	Cost Price	Selling Price	GST	Total Debtors
1/8	D. Bell		195	250	370	37	407

3 marks

1.8.1 Identify one qualitative characteristic that supports the treatment of the shipping cost as a period cost. Justify your answer

Characteristic Materiality
Justification Does not have a significant impact on reported profit to warrant additional recording.

1 + 1 = 2 marks

1.8.2 Will the decision to classify the shipping fee as a period cost rather than a product cost affect Net Profit for the period?

Increase Cost of Goods sold as all shipping expense would be recognised in this period thus decreasing net profit
OR Increase expenses and decrease net profit

2 marks

1.9.1 GENERAL JOURNAL**GJ 3****General Ledger**

Date 2003	Particulars	Post Ref.	Debit \$	Credit \$
1/9	Stock Writedown		1 800	
	Stock Control			1 800

3 marks

1 mark for Stock Writedown (credit)

Total 45 marks

Question 2 – Sporting Life

2.1.1 Calculation

Capital (31/12/02)	75 600	DRAWINGS	52 800	Bal	75 600
Plus Bank	10 000			Bank	10 000
+ Profit/Loss	34 500	Bal end	67 300	Profit	34 500
- Capital (31/12/03)	67 300				
= DRAWINGS	52 800				
Drawings = \$ 528 00					

3 marks

2.1.2 Two factors to be considered when determining drawings

First factor amount of profit made (Profit > Drawings.) OR Net Cash Inflows from Operations NOT BOTH
Second factor Impact on the liquidity of the business (insufficient cash to meet future financial obligations.) OR Personal needs of owner / Effort put into business by owner.

1 + 1 = 2 marks

2.1.3 Excluding drawings – select two other items to explain how the business has reported a profit but shown a decrease in the bank balance.

Item 1 Repayment of loan (\$40 000)
Justification A cash outflow to reduce a liability. No effect on revenue generation.
Item 2 Debtors / Credit Sales.
Justification Debtors collection (cash) less than credit sales generated (profit.)

2 + 2 = 4 marks

2.2 WCR has decreased – explain the effect this trend could have on liquidity

There is a reduction in the ability of the business to meet its short-term debts. However \$3.14:\$1 may still be above bench marking/industry average and hence still favourable. Business may be forced to borrow to meet immediate repayments
--

2 marks

2.3 Explain why the gearing ratio is used as an indicator of long-term financial stability

Gearing indicates how the assets of the business are financed (indicates level of exposure of debt that the business has.) Higher levels of gearing imply higher interest expenses and risk.
--

2 marks

2.4.1 Why is it necessary for a business to manage the length of its cash cycle?

Business must manage cash so it can effectively and efficiently meet all financial obligations when they fall due. Costs involved in having to borrow in order to cover cash shortfalls.
--

2 marks

2.4.2 Identify the ratios that measure the length of the cash cycle

Stock Turnover
Debtors Turnover

2 marks

2.5 GENERAL JOURNAL

			General Ledger		Subsidiary Ledger	
Date	Particulars	Post Ref.	Debit \$	Credit \$	Debit \$	Credit \$
31/12	Creditors Control		1 000			
	Creditor – John Door				1 000	
	Debtors Control			1 000		
	Debtor – John Door					1 000
	Bad Debts		500			
	Debtors Control			500		
	Debtor – John Door					500

--	--	--	--	--	--	--

4 + 3 = 7 marks

2.6.1 Explain why the variance for Advertising is shown as Favourable (F)

The actual cash payment for Advertising was less than the forecast (budget) amount. The impact on the bank balance is lessened.

2 marks

2.6.2 Explain one possible unfavourable consequence of the variance in Advertising

Explanation The decline in actual advertising expense (\$11 000 down) has been reflected in a decline in cash sales (\$60 000 down.) Advertising is designed to attract customers and increase sales.

2 marks

2.6.3 Excluding the reduction in Advertising, identify two ways by which the business has been able to pay for the unplanned purchase of the new equipment.

Loan from NCC Bank.
Decrease in payments to creditors.

2 marks

2.7.1

Debtors Balance (1/1/05) 18 000		
+ Credit Sales 20 000	Bal 18 000	Dis Exp 500
- Discount Expense 500	Credit Sales 20 000	BANK 23 500
- Debtors Balance (31/3/05) 14 000		Bal 14 000
= RECEIPTS FROM DEBTORS 23 500		
Receipts from Debtors = \$ 23 500		

3 marks

2.7.2

Cash Budget (extract) from Quarter ended 31 March 2005

Estimated Cash Payments	\$
Payments to creditors	40 000
Wages Expense	10 500
Prepaid Rent Expense	15 000
Loan repayment	15 000
Loan Interest Expense	2 300
Other Cash Expenses	10 400
Drawings	13 500
	\$106 700

5 marks

2.7.3 Explain how preparing cash budgets quarterly instead of annually may improve cash control

Explanation Identifies emerging unfavourable trends/problems earlier or inaccuracies and hence able to take corrective action.

2 marks

2.8.1

GENERAL JOURNAL

GJ 3

General Ledger Subsidiary Ledger

Date 2003	Particulars	Post Ref.	Debit \$	Credit \$	Debit \$	Credit \$
31/12	Accrued Interest Revenue		50			
	Interest Revenue			50		

3 marks

2.8.2

Cash Receipts Journal (extract)

CRJ 7

Date 2003	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
31/1	Interest Revenue									25
	Accrued Revenue			75						50

2 marks

Total 45 marks

© VCAA 2003

Published by the Victorian Curriculum and Assessment Authority
41 St Andrews Place, East Melbourne 3002



Photocopying: This publication can only be photocopied for the use of students and teachers in Victorian Schools.