



2004

Accounting GA3: Written examination 2

GENERAL COMMENTS

The November examination comprised two questions with multiple parts to each question. The questions and subsequent parts are intended to increase in difficulty, and this format will continue to be the case.

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 they leave out information.

It was noted in the June Assessment Report that the Answer Book should be used as a guide to how each question should be answered. This still applies. Further to that, questions must be read carefully; often instructions to draw from the material provided are ignored. Too often rote learned answers were provided when they weren't appropriate.

Previous Assessment Reports have highlighted issues that have cost students marks in the past. In this examination it was pleasing to see that correct terminology (Stock **Control**) and document numbers in Stock Cards were used. There are still a number of these areas that students need to improve upon (**Cost of Sales** rather than **Cost of Goods Sold**) and these areas will still attract marks in an examination.

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 for each scenario.

SPECIFIC COMMENTS

Question 1 – Magical Music

1.1.1

Marks	0	1	2	3	4	5	6	Average
%	16	7	8	13	19	23	14	3.5

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Creditors Control

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
31 Dec	Bank	CPJ 11	18 000	1 Dec	Balance		24 500
	Discount Revenue	CPJ 11	500	31 Dec	Stock Control	PJ 7	23 000
	Stock Control	GJ 3	400				
	Debtors Control	GJ 3	800				
	Balance		27 800				

General Ledger

While this question was generally well answered, it highlighted some of the problems identified in previous Assessment Reports. Students who failed to receive full marks tended to use the incorrect dates for posting the Journal information, not accurately record the discount, use the individual debtor's name or ignore the post referencing requirement.

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1.1.2 Explain the contra entry

Marks	0	1	2	Average
%	22	22	56	1.4

Explanation It comes about when a business has an individual/business as both a DEBTOR and a CREDITOR. The parties have agreed to offset their accounts against each other.

Contra entry

While this question was generally well answered, students who failed to gain full marks did so because they either only mentioned one point or said the entry was a contra entry which was given to them.

1.2.1 Using the information, explain why the cash flow may be declining

Marks	0	1	2	Average
%	15	19	66	1.6

Explanation The business is paying its creditors more promptly, yet at the same time taking longer to collect cash from debtors.

Cash Flow

Again, a question that was well answered. Most students identified that the business was taking longer to receive cash from debtors and was paying creditors quicker. Poorer answers only identified one trend. Students need to draw from the material given.

1.2.2 Identify one NON FINANCIAL indicator that could be used to assess her relationship with suppliers

Marks	0	1	Average
%	65	35	0.4

Identify Credit notes issued by suppliers, the number of goods returned to suppliers, the discounts offered by suppliers, number of purchase returns, survey creditors for their views.

Non-financial indicator

This was an example of a question where many students gave a rote learned answer. Stating that a customer satisfaction survey was a non-financial indicator demonstrated that students hadn't read the question properly.

1.3.1-2 State one positive effect on the business of offering discounts to debtors

State one negative effect on the business of offering discounts to debtors

Marks	0	1	2	Average
%	7	24	69	1.7

Positive effect Encourages early payment of cash by debtors, giving access to business to use cash to invest/pay off debt/purchase assets for business. Faster cash cycle. May lead to increased sales.

Negative effect Increases expenses (discount expense) and decreases Net Profit. Less cash coming into the business than expected – less cash at bank.

Discounts to debtors

This question was reasonably well answered. The majority of students were able to answer correctly for the positive effect but didn't always clearly identify the negative effect. Poorer answers referred to 'losing money' as a negative. This is incorrect and students need to be aware of the distinction between losing money and not receiving the full amount from debtors.

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1.4.1

Marks	0	1	2	3	4	Average
%	3	4	8	33	51	3.3

Stock Item 64: Guitars

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
Jan										
1	Balance							12	150	1800
3	Rec. 23				3	150	450	9	150	1350
7	Inv. A45				2	150	300	7	150	1050
11	Inv. J87	10	160	1600				7 10	150 160	2650
15	Memo 12				1	150	150	6 10	150 160	2500
21	Inv. A47				6 1	150 160	900 160	9	160	1440
27	C/N 3	1	160	160				10	160	1600

Stock Card

This question demonstrated that students had learned from previous examinations. The use of document numbers in the 'Details' column has been an issue in the past and it was good to see the majority of students using the document numbers. The main error was students using the incorrect cost price for the Sales Return. Students should remember that when using FIFO for a Sales Return, the process is to restore the Stock Card to the position it was in prior to the sale.

1.4.2

Marks	0	1	2	Average
%	14	21	65	1.6

GENERAL JOURNAL

Date 2005	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$
15 Jan	Drawings	-	150			
	Stock Control	-		150		

General Journal

A well answered question with the main error being a consequential error; using the incorrect amount from Q1.4.1. Most students labelled the item 'Stock Control' rather than just 'Stock', which was pleasing. Students should note that when recording for Stock Control in the General Journal there is no need to make a corresponding entry in the Subsidiary Ledger column(s).

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1.4.3

Marks	0	1	2	Average
%	19	17	64	1.5

SALES JOURNAL

Date 2004	Debtor	Post Ref.	Invoice	Cost Price	Selling Price	GST	Total Debtors
21 Jan	A. Donald	-	A68	1060	2240		2240

Sales Journal

Generally this question was handled well. The main errors came from students who tried to make two entries – one for each cost price. Many students also included GST which was not required. Students who did so were not penalised, but it reinforced the feeling that students did not read the question properly.

1.4.4 STATE two ways the use of stock cards can assist the business in managing stock

Marks	0	1	2	Average
%	20	43	38	1.2

First way Identifies stock loss/gain when compared with physical stock take. Allows for the preparation of a stock schedule which can be checked against the balance in the Stock Control Account.

Second way Provides management with information about fast and slow moving stock. Identifies reorder points.

Managing stock through Stock Cards

The key to this question was 'managing stock'. Too many students discussed general reasons for why Stock Cards are prepared. Again, reading the question was an issue. Answers that wanted to discuss stock loss/gain needed to talk about comparing the Stock Card with the physical stock take. By themselves Stock Cards do not identify a loss or gain.

1.5.1

Marks	0	1	2	3	4	Average
%	8	12	16	25	39	2.8



**MAGICAL MUSIC
CASH FLOW VARIANCE REPORT
FOR YEAR ENDING 31 DECEMBER 2005**

	Budget \$	Actual \$	Variance \$	F=Favourable U=Unfavourable
Cash Receipts				
Cash Sales	320 000	290 000	30 000	U
Receipts from Debtors	65 000	50 000	15 000	U
Loan from NCS Bank	–	25 000	25 000	F
	385 000	365 000	20 000	U
Less Cash Payments				
Payments to Creditors	200 000	200 000	–	–
Rent	33 000	33 000	–	–
Wages	45 000	48 000	3 000	U
Motor Vehicle	–	55 000	55 000	U
Drawings	37 000	35 000	2 000	F
Interest on Loan	–	2 000	2 000	U
Advertising	20 000	19 000	1 000	F
Vehicle Expenses	17 000	22 000	5 000	U
	352 000	414 000	62 000	U
Surplus/Deficit	33 000	(49 000)	82 000	U
Cash Balance at 1 January 2005	(23 000)	(23 000)	–	–
Cash Balance at 31 December 2005	10 000	(72 000)	82 000	U

Variance Report

Generally well answered, but errors came from students who did not provide a variance for the totals. Poor understanding of negative figures and therefore poor addition meant variances in \$ terms were not always accurate. There were also a number of students who did not fully understand what a Favourable or Unfavourable variance was. This was especially true in terms of the loan.

1.5.2 IDENTIFY two reasons why the business reported a Net Profit, yet at the same time reported a decrease in cash

Marks	0	1	2	Average
%	49	41	10	
				0.7

Reason 1 Payments to creditors (\$200 000) were greater than Cost of Sales (\$170 000).

Reason 2 Purchase of motor vehicle. Cash drawings – all have a negative effect on the cash position, but no effect on profit.

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Decrease in cash yet reported a Net Profit

This is an example of a question where students did not use the information provided. Another issue was the number of students who provided rote learned answers as to why profit and cash flow may differ.

1.5.3 STATE two possible reasons why Cost of Sales was less than payments to Creditors

Marks	0	1	2	Average
%	44	37	19	0.8

Reason 1 A decrease in sales without a corresponding decrease in purchases. A deliberate attempt to reduce liabilities through increased payments to creditors. Seeking to improve CTO by reducing liabilities.

Reason 2 A decrease in sales causing COS to decrease. Buying from a cheaper supplier in the new reporting period. Paying off creditors from a previous reporting period.

Cost of Sales less than Payments to Creditors

Students generally struggled with this question. Many were able to come up with one reason but struggled to find a second. The key to such a question is to provide a reason for each item – why Cost of Sales may be lower and why Payments to Creditors may be higher.

1.5.4 EXPLAIN why cash budgets should be prepared more frequently than on a yearly basis

Marks	0	1	2	Average
%	28	34	38	1.2

Explanation More frequent preparation of budgets allows businesses to set shorter future cash targets/goals. More frequent preparation of budgets allows more realistic goal setting, problem identification and hence corrective action. More frequent budgets can be used to compare against actual results to identify under/over performing areas sooner.

More frequent preparation of Cash Budgets

Many of the answers spoke in generic terms without considering the frequency issue. This was a key issue in the question and again showed that a failure to read the question carefully resulted in rote learned answers which weren't appropriate.

1.5.5 EXPLAIN how high levels of debt can be a problem for profitability and liquidity

Marks	0	1	2	Average
%	55	27	18	0.7

Profitability Interest paid on debt has a negative impact on business profit.

Liquidity The servicing (paying off) of both the principal and the interest has a negative impact on cash flow.

High levels of debt

Many students confused debt with debtors. Other students said that profit is used to pay debts. This demonstrated that students still have difficulty distinguishing between cash and profit and how a business can use either of them.

1.5.6 EXPLAIN how gearing will be affected by the Cash Variance Report

Marks	0	1	2	Average
%	47	35	18	0.8



Explanation The business is becoming more reliant on borrowed funds due to an increase in bank overdraft and the loan from NCS Bank. The increase in total assets is less than the increase in liabilities.

Gearing

Most students were able to identify an increase in Gearing but came up with the 'wrong' reason. The new loan was a factor but not as significant as the change in bank balance. Students needed to mention the change in bank balance to gain full marks.

1.5.7 EXPLAIN why the owner should be concerned about the ability of the business to meet its short term debts

Marks	0	1	2	Average
%	29	48	24	1.0

Explanation The WCR has declined over the period and this trend could cause problems in the future. The business has no cash at bank (as indicated by the cash variance report).

Ability to meet short term debts

Most students were able to identify the trend in the ratio which was necessary. However, many failed to go on and talk about how this would impact upon their ability to repay short term debts. It has become standard to expect two points for a two mark question.

1.6

Marks	0	1	2	3	4	5	6	Average
%	10	10	18	24	21	10	7	3.0

MAGICAL MUSIC BUDGETED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2006

	\$	\$		\$	\$
Current Assets		142 000	Current Liabilities		135 000
Non-Current Assets		500 000	Non-Current Liabilities		80 000
			Owner's Equity – Capital (1–1–06)	325 000	
			Asset Revaluation Reserve	60 000	
			Net Profit	87 000	
			Less Drawings	45 000	427 000
		642 000			642 000

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Budgeted Statement of Financial Position

This was a difficult question. Many students did not know how to treat the Asset Revaluation – many ignored it, some treated it as a devaluation. Also many students did not know how to calculate Current Liabilities using the information given.

Question 2 – Swan Electrics

2.1.1

Marks	0	1	2	Average
%	3	8	89	1.9

SALES JOURNAL

Date 2004	Debtor	Post Ref.	Invoice	Cost Price	Selling Price	GST	Total Debtors
23 Oct	J. Barrow	-	8173	700	1000	100	1100

Sales Journal

Perhaps the best answered question on the paper. Titles and document number were recorded well, students remembered to include the cost price of the sale, and GST was recorded correctly.

2.1.2

Marks	0	1	2	Average
%	23	48	29	1.1

Cash Receipts Journal (extract)

Date 2004	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
9 Nov	J. Barrow		25	1100		1100				

Cash Receipts Journal

Many students calculated a discount (a misreading of the information) or included the GST in their response to this question and these answers were incorrect.

2.1.3

Marks	0	1	2	Average
%	25	40	35	1.2

Subsidiary Ledger (extract)

DEBTOR – J Barrow

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
23 Oct	Credit Sales/GST		1100	9 Nov	Bank		1100

Subsidiary Ledger

A variety of answers were given to this question, depending upon the students' answer to Q.2.1.2. The inclusion of a discount, GST on the credit side, incorrect title on the credit side and using \$1000 as the amount were the most common errors.

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2.2.1-3 STATE what the credit entry of \$1200 represents
STATE the amount of GST paid on cash purchases
BALANCE the GST Clearing Account

Marks	0	1	2	3	Average
%	19	38	30	13	1.4

Entry The \$1200 represents the GST charged to debtors on credit sales for the month of November. Money owed to the ATO for credit sales.

Credit entry

This question and the one that follows demonstrated that students did not fully understand how to treat GST. Many students used the terms collected or received when stating the amount.

Amount \$300

Amount of GST

This was a poorly answered question. Students did not read the information correctly and came up with a variety of amounts.

Account: 205

GST CLEARING

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross reference	Post Ref.	\$
Nov 30	Bank	CPJ1	1500	Nov 1	Balance		1500
30	Bank	CPJ1	300	30	Bank	CRJ1	950
	Creditors Control	PJ1	500		Debtors Control	SJ1	1200
Nov 30	Balance		1350				

Ledger Account

Most students answered this well, however in many answers the ledger account was not balanced correctly.

2.2.4 Statement of Financial Position

Marks	0	1	2	3	Average
%	40	31	13	15	1.1

Amount \$1350

Classification Current Liability

Statement of Cash Flows (show classification items and amounts)

Operating

Inflows GST Collected \$950

Outflows GST Paid \$300
 GST Paid ATO \$1500

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Report extracts

As in past examinations, students appeared to have difficulty with GST. While the entry in the Statement of Financial Position was handled well, the entries in the Statement of Cash Flows were not handled well at all. Students who were unsure reported every item from the General ledger hoping they would attract some marks. This was not the case.

2.3.1

Marks	0	1	2	3	Average
%	20	11	31	38	2.0

GENERAL JOURNAL

Date 2004	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Debit \$	Credit \$	Credit \$
Nov 30	Stock Write Down		800			
	Stock Control			800		

General Journal

This question was generally well answered, with the calculation of the amount being the main issue for students. Again it was good to see that most students correctly labelled the credit entry 'Stock Control'.

2.3.2

Marks	0	1	2	3	Average
%	35	10	17	39	1.7

Calculation

$$\begin{aligned}
 &80 * (\$12 - \$2) = 800 \\
 + &20 * \$20 = 400 \\
 + &200 * \$22 = 4400
 \end{aligned}$$

\$5600

Stock value

This question was well answered. Those students that failed to gain full marks tended to only include two of the three different cost stock items. Another common error was the use of the selling price as the amount.

2.3.3 EXPLAIN with reference to an accounting principle why it would be inappropriate to value the undamaged units at \$55 each

Marks	0	1	2	3	Average
%	38	26	25	11	1.2

Accounting principle Conservatism

Explanation Gains should only be recognised when certain. Valuing stock at \$55 is incorrect as there is no evidence to suggest they will sell the stock at that price.

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Accounting principle and stock valuation

Most students were able to identify the most appropriate principle, however, many then produced a standard rote learned definition. Better answers needed to focus on not recognising gains until earned. Many students provided standard definitions of Conservatism which was not what was required. Answers that identified the Historical Cost principle were accepted and able to gain full marks.

2.3.4 STATE what is meant by the term 'net realisable value'

Marks	0	1	Average
%	63	37	0.4

Meaning NRV = the **estimated** selling price of an item of inventory **less** any costs incurred in its selling, marketing, and distribution.

Net Realisable Value

A relatively straightforward definition was required, yet many answers confused the definition by using terms such as selling price or what the stock is worth.

2.4.1

Marks	0	1	2	3	Average
%	15	15	41	29	1.9

Calculation

Invoice Price \$45
Customs Duty \$9
Freight In \$8 (\$800 per shipment of 100)

Cost price

\$62

Cost Price

While this question was handled reasonably well, it appears that there is still some confusion on this topic. The most common errors occurred when students included every cost in the hope of attracting some marks. Some students also failed to read the question carefully and provided a total cost (a cost for all 100 units), which was incorrect. A unit cost was required.

2.4.2 JUSTIFY with reference to a qualitative characteristic your treatment of the stickers

Marks	0	1	2	Average
%	35	14	51	1.2

Qualitative characteristic Materiality

Justification Whilst the brand sticker can be directly apportioned as part of the cost of the heater, the stickers are 5 cents each and hence their cost is immaterial and should be written off as a Period Cost.

Qualitative characteristic

Most students were able to identify the correct qualitative characteristic and then provide an adequate justification. Students did confuse the concept of significance with the ability to assign the cost to the stock item. A better understanding of the '10%' rule should be developed by students.

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2.4.3 JUSTIFY your treatment of the delivery cost to customers

Marks	0	1	Average
%	55	45	0.5

Justification The cost of delivery to customers is a selling cost. Not part of the cost of getting the goods ready for sale.

Delivery cost

This question was consequential to student responses to Q2.4.1. The concept of 'free delivery' was the crux of many responses but this needed to be explained well to gain a mark.

2.4.4 EXPLAIN with reference to the above information the meaning of the term 'product cost'

Marks	0	1	2	Average
%	34	30	36	1.1

Explanation Any costs associated with getting the goods into a position ready for sale which are significant or material or which can be directly linked to the stock item.

Product cost

Students were required to provide a standard definition with an example from the material given. Most students were able to do so. Poorer responses again failed to mention a second point.

2.5.1 EXPLAIN the likely effect the above trends would have on the business's Gross Profit, and Liquidity

Marks	0	1	2	3	4	Average
%	34	17	23	13	13	1.6

Explanation (Gross Profit) Improved stock turnover means more stock is being sold, generating higher levels of profit. Worsening GP margin suggests that stock is more expensive to purchase and/or stock is being sold at a discount. Decreased sales due to less stock held and customer requirements not being met.

Explanation (Liquidity) Higher sales of stock will generate higher levels of cash inflow (i.e. in regards to cash sales). Worsening GP margin implies cost of stock higher/selling price of stock lower, resulting in higher cash outflow (purchases) and lower cash inflow (cash sales and debtor receipts). Improved STO could be caused by a decrease in stock held, requiring less cash purchases of stock or payments to creditors.

Effect on Liquidity and Gross Profit

This was a difficult question that was not handled well. Students needed to identify the trend in each ratio and how that trend may impact on Gross Profit and Liquidity. Most students tried to link one ratio with Gross Profit and the other ratio with Liquidity when the question required both ratios to be discussed for each item.

2.5.2 STATE one possible reason other than advertising for the improvement in the STO over the period

Marks	0	1	Average
%	33	67	0.7

Reason Changing the stock mix (new products). Stock sold at a discount. Reconfiguring shop layout to make stock more attractive to buy. Deliberate decision to hold less stock. Removal of slow moving lines. Less competition.

Improvement in Stock Turnover

It was good to see that students took note of the restriction put on responses by the question. A range of answers were accepted and students performed well.

2004 Assessment Report



2.6.1

Marks	0	1	2	3	Average
%	33	22	39	5	1.2

101 BANK

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
Dec 31	Cash Receipts		30 000				

210 PREPAID REVENUE (insert account title)

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
				Dec 31	Bank		1 000

Ledger accounts

This question was handled poorly with most answers failing to correctly debit the bank account with the full \$30 000. Students tended to use the \$1000 for Prepaid Revenue. Another common error was the use of Accrued Revenue as the ledger account title.

2.6.2

Marks	0	1	2	3	4	Average
%	41	12	19	16	12	1.6

GENERAL JOURNAL

Date 2005	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$
Jan 16	Prepaid Revenue/Prepaid Sales		1 000			
	Cash Sales/Revenue			1 000		
	Cost of Sales		600			
	Stock Control			600		

General Journal

This question was generally well done, with the use of the incorrect title 'Cost of Goods Sold' as the most common error. Poorer student responses tended to omit the cost price of the transaction altogether.

2.7

Marks	0	1	2	3	Average
%	58	19	14	9	0.8

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Cash Receipts Journal (extract)

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries
July 31	Accrued Interest Revenue			61 500					1 250
	Interest Revenue								250
	Term Deposit								60 000

Cash Receipts Journal

This was a difficult question and responses reflected this. This topic was handled poorly in the November 2003 examination and responses this year showed that students still have difficulty understanding how to record the receipt of Accrued Revenue. The addition of the Investment further troubled students.