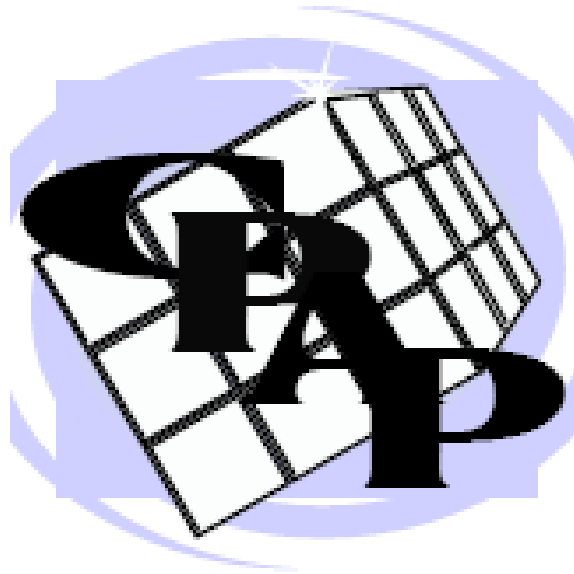


COMMERCE PRESENTATIONS AND PUBLICATIONS



ACCOUNTING

2009

Practice examination 2

**ANSWERS/SOLUTIONS AND
ADVICE**

Question 1 Budget Sports

1.1.1

Product Cost / Period Cost (Circle one)

Explanation: As freight is a cost associated with getting the stock into a position and condition for sale And it can be allocated to individual items on a logical basis it should be added to the cost of each item of stock

2 + 1 = 3 marks

- 1 mark for position and condition statement
- 1 mark for logical basis for allocation
- 1 mark for Product cost

Notes to students:

The theory question relating to product and period costing in the 2008 exam (Q 1.2.2) was poorly handled, with an average mark of 40% (.8/2). Like the question above, there was no requirement to explain the difference between the two costing methods. Accordingly, a 'rote learned' response that explains the difference between the two will not be sufficient.

1.1.2

Explanation: By treating freight as a product cost then only the freight component of items sold will be counted in the calculation of profit. If treated as a period cost then the total amount of freight would be counted as an expense, making profit slightly lower.

2 marks

- 1 mark for recognising freight on items sold is only counted
- 1 mark for identifying period costing expenses the total freight cost

Notes to students:

A similar question was provided in the 2008 exam (Q1.2.2). In this case many students provided a definition of product and period costs – this was not required. It appeared as though students did not read the question carefully enough. To gain full marks for this type of question students must state the effect on profit (higher or lower).

1.1.3

PURCHASES JOURNAL

Date 200 9	Creditor	Inv. No.	Stock	GST	Total Creditors
Oct 7	Helmet Sports	HS341	4 100	410	4 510

Stock card: Item – Gilson Netballs

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2009										
Oct 7	Inv HS341	30	31	930				30	31	930

1 + 1 = 2 marks

1 mark for each entry

Notes to students:

Don't forget to include the document in the stock card (this was an error made by students in the 2008 exam) and to include the freight per item to the cost price of the stock.

Don't make the mistake of including the GST in the cost price (Purchases Journal). A common error in the 2007 exam.

1.1.4**GENERAL JOURNAL**

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 13	Creditors Control	92			
	Helmet Sports			92	
	GST Clearing		8		
	Stock Control		84		
	<i>Return of 4 damaged Xtreme basketballs – CN BS7</i>				
	Stock Writedown	84			
	Stock Control		84		
	<i>21 Xtreme basketballs written down Memo 11</i>				

2 + 2 + 2 = 6 marks

- 1 mark for debit entries for return
- 1 mark for credit entries for return
- 1 mark for GST entry
- 1 mark for each line of writedown entry

1 mark for both narrations – must contain document number and quantities.

Notes to students:

Purchase returns entries continue to cause trouble for students. Failing to include the GST is the most common error. Titles for Creditors and Stock must have the word Control

The General Journal entry for a stock writedown is very commonplace and students generally have no problems with such entries.

When asked for narrations (there is generally one such requirement in the VCAA exam), students must include the document number, and if a stock entry, must include the number of units and the name of the stock item.

1.1.5

Explanation: Net realisable value is the expected selling price of stock less any costs associated in selling

the stock. In this case it is \$18 less \$1 of selling costs = \$17 per unit NRV.

2 marks

1 mark for expected selling price

1 mark for less selling costs

Notes to students:

Again this is a common question. Errors commonly made are to omit the term 'estimated' when identifying the selling costs associated with the stock.

1.1.6

SALES JOURNAL

Date 200 9	Debtor	Inv. No.	Cost Price	Sales Price	GST	Total Debtors
Dec 15	Diamond High School	BS61	615	1 050	105	1 155

2 marks

1 mark for Date, Debtor, Invoice No and Cost Price

1 mark for Sales price, GST and Total

Notes to students:

While recording a transaction in the Sales Journal is straightforward, 2 marks are always allocated to this task. This means that all information will be scrutinised and students must be sure to include items such as Date and Invoice Nos. – items often overlooked by students. Most common error by students is to include the GST to the cost price of the stock.

1.1.7

Stock Control

Date 2009	Cross Reference	Amount	Date 2009	Cross Reference	Amount
Jan 1	Balance	30 000	Dec 13	Stock Write Down	84
Dec 7	Creditors Control	4 510		Creditors Control	84
			15	Cost of Sales	615

4 marks

1 mark for each entry

Notes to students:

*This question required students to record **ALL** transactions relating to stock – this meant students need to look as far back as Q1.1.3.*

When a Ledger Account is required and 4 marks are allocated, generally 4 entries are required.

1.2.1**GENERAL JOURNAL**

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
July 1	Equipment	5 000			
	GST Clearing	500			
	Sundry Creditor – Ace Equipment		5 500		
Sep 30	Depreciation – Vehicle	1 500			
	Accumulated Depreciation - Vehicle		1 500		
	Sale of Vehicle	20 000			
	Vehicle		20 000		
	Accumulated Depreciation – Vehicle	9 500			
	Sales of Vehicle		9 500		
	Vehicle	25 000			
	GST Clearing	2 500			
	Sale of Vehicle		10 000		
	Sundry Creditor – Xenon Motors		17 500		
	Loss on Sale of Vehicle	500			
	Sale of Vehicle		500		

10 marks

- 1 mark for debit entries for 1st transaction
- 1 mark for credit entry for 1st transaction
- 1 mark for each line of depreciation entry
- 1 mark for disposal of asset entry
- 1 mark for removal of accumulated depreciation entry
- 1 mark for purchase of new vehicle + GST

- 1 mark for trade-in entry
- 1 mark for Sundry Creditor
- 1 mark for profit/loss entry

Notes to students:

This type of question regularly causes problems for students. In 2008 this question saw students average 3.7 out of 10 (Q1.4.1 and 1.4.2). The 2007 question was slightly easier (1 less complication) and students averaged 6.9 out of 12. The reading of dates is critical here. It determines if any depreciation must be calculated prior to disposing of an asset. Secondly, depreciation may need to be charged on the new asset if purchased before the end of the reporting period. Although depreciation is primarily a Unit 3 issue, it is included in Unit 4, specifically for this type of question – students must review their notes from Unit 3 to ensure they understand the concepts.

The second issue for students is the recording of a trade-in to a Sundry Creditor. Using the Sundry Creditor approach is the most complex and hence tends to be examined more often. Remember that Sundry Creditors do not form part of the Control account system so there is no corresponding entry in the Subsidiary part of the General Journal

The following provides an alternative way of recording the trade in and purchase of the new vehicle. Either way is acceptable:

1.2.1

GENERAL JOURNAL

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
July 1	Equipment	5 000			
	GST Clearing	500			
	Sundry Creditor – Ace Equipment		5 500		
Sep 30	Depreciation – Vehicle	1 500			
	Accumulated Depreciation - Vehicle		1 500		
	Disposal of Vehicle	20 000			
	Vehicle		20 000		
	Accumulated Depreciation – Vehicle	9 500			
	Disposal of Vehicle		9 500		
	Sundry Creditor – Xenon Motors	10 000			
	Disposal of Vehicle		10 000		
	Loss on Sale of Vehicle	500			
	Sale of Vehicle		500		
	Vehicle	25 000			
	GST Clearing	2 500			
	Sundry Creditor – Xenon Motors		27 500		

1.2.2**Workings:**

Equipment $\$45\,000 \times 10\% = \$4\,500$ per annum

$\$5\,000 \times 10\% = \500 per annum / 6/12 (1 July – 31 Dec) = \$ 250

Thus depreciation expense for the period is $\$4\,750 +$ existing accumulated depreciation $\$9\,000$

Accumulated depreciation Equipment at 31 Dec 2009 = $\$13\,750$

	\$	\$
NON-CURRENT ASSETS		
Equipment	50 000	
Less Accumulated Depreciation	(13 750)	

3 marks

1 mark for each line of General Journal

1 mark for calculation of Depreciation

Notes to students:

This type of question regularly causes problems for students. In 2008 this question saw students average 3.7 out of 10 (Q1.4.1 and 1.4.2). The 2007 question was slightly easier (1 less complication) and students averaged 6.9 out of 12. Be careful to look at the depreciation expense initially as two separate calculations – one for the asset held for the full reporting period and another for the asset that was purchased midway through the reporting period

1.2.3

Explanation: Consistency states that methods should be applied in a consistent manner to ensure that comparisons can be made between reporting periods.

To change depreciation rates would breach this principle

Accounting Principle: Consistency

3 marks

1 mark for consistency

1 mark for defining principle

1 mark for link to changing the rate

Notes to students:

It is important that students identify a principle NOT a Qualitative Characteristic. By identifying a QC students are unable to gain full marks. (2008 Assessment Report Q2.4.2)

1.2.4

Item	Effect (Overstated / Understated / No Effect)
Revenue	No Effect
Expenses	Overstated
Net Profit	Understated

2 marks

1 mark for effect on expenses and 1 mark for effect on net profit

Notes to students:

When asked to complete such a table students must complete all lines – including writing 'No Effect' where appropriate. Students must ensure that their answer maintains the balance in the Accounting Equation (2008 Assessment Report Q2.3.1).

1.3.1

Profitability	Improved	Deteriorated	Unchanged
Efficiency	Improved	Deteriorated	Unchanged

1 + 1 = 2 marks

1.3.2

Explanation: The improvement in profitability may be due to a decrease in the cost of Goods sold. This may be due to the business buying goods from a cheaper supplier.

An alternative may be that the business increased their mark up with no corresponding decrease in sales.

2 marks

1 mark for decrease in CoGS

1 mark for cheaper supplier

1.3.3

Explanation: Despite an improvement in GPR, the NPR may have declined because of an increase in expenses. The increase in revenue suggested above may have come about because of an increase in advertising.

2 marks

1 mark for recognising that NPR has decreased despite GPR increase

1 mark for suggesting an appropriate cause.

Notes to students:

These types of question regularly catch students providing 'rote' learned answers. Students must link the ratio/indicator to their response. Students should use the component of the ratio for guidance.

For example – if discussing Net Profit Rate, students should base their response on Net Profit (Revenue – Expenses) or Sales.

Total 45 Marks

Question 2

2.1.1

Debtors Control

Date 2010	Cross Reference	Amount	Date 2010	Cross Reference	Amount
Jan 1	Balance	22 000	Dec 31	Bad Debts	220
Dec 31	Sales	280 000		Discount Expense	5 600
				Bank	277 840
				Balance	18 340
		302 000			302 000

4 marks

1 mark each for Sales, Bank, Bad Debts and Discount Expense

Notes to students:

When preparing budgets, students will be required to reconstruct at least 1 ledger account(Q2.2.1.and 2.2.2 in 2007 and Q2.1.1 in 2008).

Reconstruction requires students to find one missing amount/entry for each ledger account. Students must remember the format of the ledger account and look for each entry in the information provided.

An issue noted in 2007 was the poor addition and calculation skills demonstrated by students. While not penalised in 2007 or 2008, assessors have indicated their frustration with students not taking time and carefully calculating amounts.

It is also an issue for students as they continue the exam as incorrect figures (often amounts that are obviously wrong) distract students and affect their performance in other questions.

2.1.2 Chris' Camping*BUDGETED CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2010*

	\$	\$
Cash Flow from Operating Activities		
Cash Sales	220 000	
Receipts from Debtors	277 840	497 840
Payments to Creditors	(250 000)	
Accrued Wages	(3 000)	
Wages	(89 000)	
Prepaid Rent Expense	(42 000)	
Other cash expenses (including interest)	(53 900)	437 900
		59 940
Cash Flow from Investing Activities		
nil		
Cash Flow from Financing Activities		
Drawings	(42 000)	
Loan	(12 000)	(54 000)
Net change in cash held		5 940
Bank at Start (1/7/2008)		11 000
Bank at End (30/06/2009)		13 940

6 marks

- 1 mark for Operating inflows
- 1 mark for Wages/Accrued Wages
- 1 mark for Payments to Creditors/Prepaid Rent expense
- 1 mark for other cash expenses
- 1 mark for Financing outflows
- 1 mark for completion of report to show Bank balance at beginning and end

Notes to students:

Students often perform worse when preparing a budgeted Cash Flow Statement in Unit 4 compared to a Cash Flow Statement in Unit 3 (Assessment Report 2007Q2.2.4). This may be due to students not revising properly or seeing budgeting as a separate topic and forgetting the basics learnt in Unit 3.

Students must ensure the basics of layout, classification and titles are not forgotten.

2.1.3

Explanation: Under accrual accounting there is a difference between revenue earned and received and expenses paid and incurred. Profit and cash are two different items. Some cash inflows are not revenue and therefore will not contribute to profit. Similarly, not all payments are expenses.

Example 1: Receipts from Debtors is less than credit sales therefore the effect on bank is not the same as the effect on profit

Example 2: Loan Repayments/Drawings both decrease cash at bank but have no impact on net profit

2 + 2 = 4 marks

1 mark for distinction between cash and profit

1 mark for explanation of difference

1 mark for each example linked to explanation

Notes to students:

This type of question causes the most problems for students. It is natural to provide a rote learned response explaining the difference between cash and profit. However, the question requires examples from the information provided (usually a Cash Flow Statement and/or a Profit & Loss Statement).

Students must choose their examples carefully. They MUST be linked to the material, they should be significant amounts and they MUST be able to stand scrutiny.

For example – to state that Receipts from Debtors is less than Credit Sales is a reasonable explanation for cash at bank being less than profit. However, there must be information to support the level of credit sales and/or receipts from debtors.

Students cannot make assumptions here..

2.1.4

Explanation Cash from Operating Activities is a more realistic indicator of profit as it is cash inflows and outflows relating to the day to day running of the business. It includes all payments and receipts relating to sales and selling.

2 marks

1 mark for day-to-day operations

1 mark for inflows and outflows relating to sales and selling

Notes to students:

In this situation the response must be more focused as a specific component of cash flows is being discussed and similarities between cash and profit are being requested rather than differences. It is important to read the question carefully.

2.2.1

Item	Budget \$	Actual \$	Variance \$	F/U
Cash Sales	220 000	230 000	10 000	F
Payments to Creditors	250 000	265 000	15 000	U
Equipment	-	20 000	20 000	U
Drawings	42 000	35 000	7 000	F
Capital	-	40 000	40 000	F

2 marks

1 mark for F/U column

1 mark for other entries

Notes to students:

These questions are a common way of introducing the concept of variances before a question is asked requiring students to suggest reasons for a variance.

The key to success in these questions is to complete each empty space in the table (leave one blank and you will forfeit one mark) and be clear in writing U or F (do not write UF for unfavourable, as this will cost you one mark).

2.2.2

Explanation Cash flow was poor and the owner decided upon 2 actions to improve the cash position of the business – reduce their drawings and inject more funds into the business.

A second reason may have been due to the unexpected purchase of Equipment and rather than increase liabilities the owner decided to fund the purchase from capital.

2 marks

1 mark for acceptable reason and 1 mark for linking reason to change in OE

Notes to students:

It is important to link the reason to the variance being tested and where possible the reasons should be drawn from other items included in the variance report.

2.2.3

Explanation A Variance report identifies areas where budgeted figures were different from actual figures. It can help identify where budgeting techniques need improvement or what areas were the causes of problems.

It can help planning by highlighting areas of concern and/or strengths that corrective action can be taken

2 marks

1 mark for any benefit.

1 mark for explanation of the benefit

2.2.4

Explanation Interim reports can allow for the business to identify problems earlier and allow the business to take corrective action.

2 marks

1 mark for **earlier** problem identification

1 mark for corrective action

Notes to students:

Questions such as 2.2.3 and 2.2.4 appear in exams occasionally. They generally are handled well by students but it is important to remember that in these questions, assessors are looking for separate points for the 2 marks allocated.

2.3

General Journal

Date 2010	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Aug 15	Prepaid Sales Revenue	1 000			
	Sales		1 000		

Sales Journal

Date 2010	Debtor	Invoice number	Cost of sales	Sales	GST	Total Debtors
Aug 15	W. Woods Camping	B90	5 000	9 500	1 050	10 550

Cash Receipts Journal

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of sales	Sales	GST	Sundries
Aug 10	Prepaid Sales Revenue	890	1 000						1 000
21	Debtor – W.Woods Camping	898	10 550	231	10 319				

6 marks

1 mark for each line in GJ

1 mark for entry in SJ

1 mark for first entry in CRJ

1 mark for second entry in CRJ

1 mark for correct calculation of discount

Notes to students:

*Questions involving Prepaid Revenue are the most difficult on the exam and have proven to be so over the last 2 years:
2007 – 1.6/5*

2008 – 4.6/12

The examiners have selected the most difficult type of transaction to use in these examples and students have not handled them well. A strategy to assist students is to ignore the prepaid amount and record the sale as if it had occurred (using working space in the Answer Booklet). Once completed students should work backwards to identify revenue earned and revenue paid in advance.

A further note is that Examiners may take the opportunity in 2009 to use a secondary revenue source (such as Rent Revenue) to test this area. Students need to be aware of how to deal with this scenario.

2.4.1**Working space**

10,000 x .08 = \$800pa

\$400 at 31 March received **plus** \$200 owing for 3 months to 30 June

Interest Revenue \$600

2 marks

1 mark for \$400

1 mark for \$200

2.4.2**Interest Revenue**

Date 2010	Cross Reference	Amount	Date 2010	Cross Reference	Amount
Jun3 30	Profit & Loss Summary	600	Mar 31	Bank	400
			June 30	Accrued Interest Revenue	200
		<u>600</u>			<u>600</u>

2 marks

1 mark for debit entry
1 mark for credit entries

Notes to students:

Questions on Accrued Revenue have focused on the calculation of the amount of revenue earned and the Journal entries required for the adjustment and/or the receipt of the revenue owing. In preparing a ledger account students are reminded to read the question carefully – be asked to close or balance an account now attracts a 1 mark penalty for failing to do so and these marks should be relatively easy to obtain as the balance or the closing amount is consequential to other entries.

2.4.3**CASH RECEIPTS JOURNAL**

Date 201 1	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundrie s
30 Sept	Investment Account	23	10 400						10 000
	Interest Revenue								200
	Accrued Interest Revenue								200

3 marks

1 mark for each line

Notes to students:

Students have been required to complete this type of entry for the past few exams. The most common error is the failure to present the information in the appropriate format.

Students MUST only include 1 amount in the Bank Column.

Students MUST use full titles for each account (Assessors recognise space is an issue and will make allowance for cramped writing and accepted abbreviations)

2.5.1**Liquidity – Improve**

The inflow of \$60 000 cash into the business would increase cash available whilst current liabilities would also increase by \$24 000 as loan repayments must be made each year with interest.

OR

Liquidity – Worsen

If the cash is to be used to fund the purchase of a non current asset then liquidity may not improve as the cash has been used for a specific purpose and is not available to meet short term debts.

Profitability – Improve

If the money has been used to purchase a revenue earning non current asset then revenue could increase which would lead to an increase in net profit (provided the increase in revenue is greater than the increase in interest expense incurred) which would lead to an increase in net profit.

OR

Profitability - Worsen

The loan incurs interest expense which will decrease net profit

2 + 2 = 4 marks

Students can argue either way

1 mark for improve/worsen liquidity

1 mark for reason

1 mark for improve/worsen profitability

1 mark for increase in expenses

Notes to students:

Students have difficulty with questions where they are expected to explain the effect of a transaction on a performance indicator. Rote learned answers dominate student responses rather than responses that actually consider the transaction and its effect on the components of the indicator.

The first step in answering these questions is to determine the effect of the transaction on the components of the indicator.

2.6.1

Financial Industry average NPR

Non-financial Customer satisfaction survey

1 + 1 = 2 marks

There are numerous answers that could be acceptable here.

2.6.2

Explanation Strategies include increase advertising, increasing stock range, improving customer service, changing stock range to more specialised items or more inexpensive items, undertaking sponsorship of local sporting teams.

2 marks

1 mark for any reason

1 mark for link to improved performance.

Notes to students:

Students have difficulty distinguishing between a financial indicator and a non financial indicator.

Make sure that when identifying a strategy that you explain how the strategy you selected will improve the performance of the business

Total 45 marks