



2009

Accounting GA 3: Written examination 2

GENERAL COMMENTS

The November 2009 Accounting examination continued to have two distinct parts, each worth 45 marks. The two parts related to two small businesses operating as trading concerns. Multiple questions were then posed in relation to these two hypothetical businesses. Students were allowed 90 minutes to complete the paper. Teachers and students are reminded that there is no pre-determined weighting between practical and theoretical type questions and that the weighting between Questions 1 and 2 may be quite different.

The majority of students were able to attempt the whole paper. As usual, there were individual questions that proved to be quite difficult for some students. However, it was pleasing that most students provided a genuine attempt to the range of questions included on the examination. Both teachers and students should note that partially completed responses may be awarded some marks. It was apparent that the quality of answers deteriorated on the last page of the answer booklets for many students. This may indicate that they were rushed for time when trying to respond to every question on the examination. Students are strongly advised to complete past examinations **against the clock** to ensure that they can use their time effectively and finish the examination to the best of their ability within the 90-minute time frame.

It was quite noticeable that students' use of correct titles in journals, ledger accounts and accounting reports had improved. Some students still used abbreviations in their reports when more than enough writing space was provided. Students are again reminded that abbreviations should not be used unless absolutely necessary. For example, longer titles such as 'Accumulated depreciation of office equipment' are clearly difficult to write in full in the space provided in a General Journal. This title may be shortened to 'Acc. Dep'n of Office Equip.' without penalty. However, when preparing an accounting report, students should not use 'COGS' for 'Cost of Goods Sold' or 'Ads' as an abbreviation for 'Advertising'. Abbreviations should not be used unless necessary due to the limited space provided for some questions in the answer booklet. Students who continue to use abbreviations when not necessary will be penalised.

Consequential errors were an issue for some students. Some students left parts of their answer booklet blank, particularly when information flowed on from a previous question. It is vitally important that if students have to determine financial data in one question that this data is then carried forward as required. They will not be penalised twice in any such situation. A good example of this problem was Question 1.1, whereby students had to determine the value of accumulated depreciation over a period of time. This dollar value was then used as part of Question 1.1.3 when preparing a Disposal of Asset account. In this case, whatever amount was identified as accumulated depreciation in Question 1.1.2 should have then appeared in Question 1.1.3, regardless of whether or not it was a correct amount. This is very important as some students appeared to be skipping some questions, possibly because they felt that their answers were based on incorrect information from a previous question. Students should be assured that they will not be penalised twice for an incorrect calculation of financial data.

SPECIFIC COMMENTS

For each question, an outline answer (or answers) is provided. In some cases the answer given is not the only answer that could have been awarded marks.

Question 1 – Sporting Life

1.1.1

Marks	0	1	2	3	4	Average
%	23	18	18	22	20	2

General Journal

Date 2008	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
1 Oct.	Delivery Van	30 000			
	Prepaid Registration and Insurance	1 200			
	GST Clearing	3 120			

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	Sundry Creditor – Van Sales & Finance		34 320		
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This type of question has appeared on previous examinations and tests students' understanding of the difference between a prepaid expense (Prepaid Registration and Insurance) and the purchase of a non-current asset (delivery van). One mark was awarded for each of the four entries in the General Journal. Many students started this question well and achieved the four marks available. However, some students missed out on marks through fundamental errors such as:

- recording the Prepaid Registration and Insurance as an expense item (for example, registration expense)
- failing to recognise that the shelving installed in the van becomes part of the delivery van itself
- omitting the GST entry
- using the incorrect title for the Sundry Creditor's account, for example, 'Creditors Control'.

1.1.2

Marks	0	1	2	Average
%	37	20	43	1.1

$$\$5\,500 + \$5\,500 + \$1\,375 = \$12\,375$$

Accumulated Depreciation \$ 12 375

Some students gave very disappointing responses to this question. Students had to determine that the van had been owned by the business for a period of two years and three months. One mark was allocated for the calculation of depreciation for the two-year period (i.e. \$11 000), with the other mark for the three-month calculation of \$1375. Poorer responses determined depreciation for two months and four months, rather than the three-month period that had to be identified.

1.1.3

Marks	0	1	2	3	4	Average
%	26	10	10	17	37	2.3

DISPOSAL OF DELIVERY VAN

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$
31 Dec	Delivery Van	30 000		Acc Dep'n Delivery Van	12 375
				Sundry Creditor – Van Sales & Finance	14 000
				Loss on Disposal of Delivery Van	3 625
		30 000			30 000

With four marks allocated for this question, each correct entry was awarded one mark. Titles were an issue for some students in this question. Common errors included the following incorrect titles:

- Accumulated Depreciation (it must have also included the name of the asset)
- Sundry Creditor (it must have also stated the name of the sundry creditor)
- Creditors Control (this was inappropriate as this item is not part of the stock of the business)
- Loss on Disposal (it must have also included the name of the asset being traded in).

Students should have taken more care with this question as consequential errors were commonly evident. The amount shown for accumulated depreciation was determined as part of the previous question. Therefore, if a student was penalised for an incorrect calculation in Question 1.1.2, they would not be penalised again in this question for this

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incorrect amount. As long as the full title was used, whatever amount was carried down from the previous question would be marked correct in this question.

1.1.4

Marks	0	1	2	Average
%	36	15	49	1.2

Explanation: Depreciation has no effect on the cash flows of the business. It is simply a book entry that allocates part of the cost of an asset. Depreciation does not involve either an outflow or an inflow of cash and therefore has no effect on cash flows at all.

This was the first 'explain' type question on the examination. Students should be prepared for such two-mark questions as they have been used on many previous examinations. For two-mark questions, students are expected to provide a full explanation, usually consisting of two distinct points. Students needed to be quite clear with their responses. Poorer responses stated that depreciation might have an effect on cash or that depreciation will have a minimal effect on cash. Such responses demonstrated a lack of knowledge in relation to depreciation and were therefore penalised.

1.2.1

Marks	0	1	2	3	Average
%	26	32	35	7	1.3

$100 \times \$18 = \$1\,800$
 $+ 120 \times \$29 = \$3\,480$
 $+ 80 \times \$55 = \underline{\$4\,400}$
\$9 680

Value of Stock of netballs \$ 9 680

This question was not handled well by many students. A paragraph of detailed information was provided in the question booklet in relation to the stock held by the business. Students were required to recognise that one item of stock was expected to be sold at a value below its cost price. They also had to recognise that import duties should be included in the cost price of all items purchased by the business. With three marks available, one mark was awarded for each correct calculation. Common errors included:

- failing to recognise the import duties as part of the cost price
- not recognising that the Pro-Leather netballs were expected to be sold at lower than cost price
- failing to deduct the cost of the posters when determining the Net Realisable Value of the Pro-Leather netballs
- deducting the cost of the posters from the cost price of the stock, despite the fact that they would be sold at greater than cost price.

1.2.2

Marks	0	1	2	3	Average
%	21	22	29	28	1.6

Accounting Principle: Conservatism

Explanation: The loss on the Pro-Leather netballs must be recognised as soon as they are expected so as not to overstate assets (Stock Control) or owner's equity. The netballs are expected to be sold for less than their original purchase price.

One mark was allocated for identifying the accounting principle conservatism and two marks for the explanation. Unfortunately, some students provided a qualitative characteristic of accounting rather than a principle. Students should note that these are not interchangeable. Students should also note that a combination of answers will not be accepted. Responses such as relevance/conservatism will be assessed as an incorrect answer. Students are strongly advised to select one answer and simply state this single response. As usual with an 'explain' type question, some students only provided a limited response and consequently were not awarded full marks.

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1.2.3

Marks	0	1	2	Average
%	25	30	45	1.2

General Journal

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
31 Dec.	Stock Write Down	800			
	Stock Control		800		

One mark was allocated for each entry in the General Journal. Although many students handled this question very well, many others made fundamental errors. Titles such as Stock Loss and Stock Reduction were not accepted. Some students reversed the entry completely, despite the fact that they recognised a stock write down. Other students had the two titles correct but the dollar amount was incorrect. In general, the area of Net Realisable Value proved to be quite problematic for many students.

1.3.1

Marks	0	1	2	3	Average
%	9	8	16	67	2.4

$$\$15 + \$2 + \$3 = \$20$$

Cost price of each basketball \$ 20

The calculation of \$20 involved the inclusion of three different values. Therefore, one mark was allocated for each of the three items. However, some students included information that should not have been considered in the cost price, for example, GST and Insurance. If included, this resulted in a penalty of one mark. This question was well handled by most students, with many achieving full marks.

1.3.2

Marks	0	1	2	3	4	5	6	Average
%	12	5	9	12	19	25	18	3.7

- Cost of Insurance: A period cost – a cost related to stock which cannot be directly and accurately tied to each stock item.
- Cost of Sporting Logo: A product cost – a cost incurred in getting the stock ready for sale which can be directly attributable to each stock item.
- Cost of Basketball Pumps: This is not included in the historical cost of the stock. It represents a reduction in the GST liability of the business. The GST is not an expense incurred by the business.

Each explanation was allocated two marks, with students required to make a full explanation in order to receive the maximum marks available. As is often the case with 'explain' type questions, many students did not use the full space available in the answer book. Some students simply wrote 'period cost, product cost and irrelevant'. Short answers such as this will not be awarded full marks. Simple short statements are insufficient and are not suitable responses for this type of question.

1.4.1

Marks	0	1	2	Average
%	52	32	16	0.7

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The asset turnover must have improved, thus indicating that assets have been used more efficiently by the business. The total sales made by the business may have increased. Perhaps the business sold off some old assets, thus decreasing the total assets available. The remaining assets may have then been used more efficiently.

Responses to this question were very disappointing. It appeared that many students could not explain the relationship between the Net Profit Ratio and the Return on Assets. Some students argued against the question, stating that this is not possible. Others simply repeated the question without providing a meaningful answer. Many of these responses provided a full definition of the meaning of Return on Assets without answering the question.

1.4.2

Marks	0	1	2	Average
%	20	34	46	1.3

Reason 1: Cost of Sales has increased at a greater rate than the selling price of stock.

Reason 2: Other expenses have increased at a greater rate than the selling price of stock.

Students were able to answer this question in a variety of ways and many gave good responses, including:

- the average mark-up of the business decreased during the year, possibly due to cost price increases
- the owner may have decided to decrease selling prices and cost prices remained the same.

Students produced a range of responses and each was assessed on its merits. One mark was allocated for each valid response.

1.4.3

Marks	0	1	2	Average
%	42	35	23	0.8

Benchmark 1: Budget goals or objectives

Benchmark 2: Industry averages

One mark was allocated for each benchmark identified. In what appeared to be a straightforward question, many students failed to correctly identify two distinct benchmarks. Some students stated that this year's results should be compared to the previous period. Unfortunately, such data was provided in the question and therefore this was deemed to be an incorrect response. As usual, some students used different descriptions or expressions. Responses such as inter-firm comparisons with similar businesses were accepted to mean the same as industry averages. This is a good example for students to note as responses do not have to fit with a recommended answer. Responses that are relevant and clearly stated will always be awarded marks.

1.5.1

Marks	0	1	Average
%	65	35	0.4

Cash Receipts Journal

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Sundries
15 Dec	Prepaid Sales Revenue	28	200						200

Students should take note that one-mark questions leave no room for error. All details of the entry in the Receipts Journal were required in order to receive one mark. Some students omitted the receipt number, while others failed to record the \$200 in the Sundries column. Such errors were penalised. Other common errors involved incorrect titles. For example, rather than Prepaid Sales Revenue, some students used titles such as Deposit or Boystown Football Club. Neither of these entries was acceptable. The question was not handled well by many students.

1.5.2

Marks	0	1	2	3	4	Average
%	22	13	20	12	34	2.2

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Financial Report	Classification
Cash Flow Statement	Operating Inflow
Balance Sheet	Current Liability

This question provided a range of responses. Although most students responded quite well, there were also some disappointing responses. Some students opted to simply state liabilities, rather than the classification of Current Liabilities. It was also disappointing that some students thought a deposit on a future sale would be recognised in the Profit and Loss Statement. As there were four boxes to be completed in the answer booklet, one mark was allocated for each of the four responses.

1.5.3

Marks	0	1	2	3	4	5	Average
%	17	14	26	14	16	13	2.4

General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jan 20	Prepaid Sales Revenue	200			
	Sales Revenue		200		

Sales Journal

Date 2011	Details	Inv. No.	Cost of sales	Sales	GST	Total debtors
Jan 20	Boystown Football Club	D226	1500	2300	250	2550

This type of question has been presented on a number of previous years' examinations and different approaches have been used by students. The preferred approach is demonstrated above. When a deposit is paid by a customer this is done to secure a future contract of sale. The deposit does not create any GST charged, nor does it create a Cost of Sales entry for a specific number of goods. Therefore, when goods are provided by the retailer, the correct approach is to transfer the prepaid revenue to the sales revenue account in the General Journal. The rest of the required entries should then be made in the Sales Journal. This includes the recording of the Cost of Sales on the total transaction (\$1500), recording the remainder of the sales amount (in this case \$2300), the GST on the total sale (\$250), and finally, the total that remains as owing by the debtor (\$2550).

In the answer shown above, two marks were allocated to the General Journal (one mark for each entry). The Sales Journal was allocated three marks, with the key figures being Cost of Sales, Sales and GST. The total debtors amount was consequential, depending on the amounts entered in the Sales and GST columns. However, marks could still be lost if other details were incorrect. For example, an incorrect title entered for Boystown Football Club was a common error.

An alternative approach was accepted and the solution was as follows.

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Alternative solution: General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jan 20	Prepaid Sales Revenue	200			
	Sales Revenue		200		
	Cost of Sales	120			
	Stock Control		120		

Sales Journal

Date 2011	Details	Inv. No.	Cost of sales	Sales	GST	Total debtors
Jan 20	Boystown Football Club	D226	1380	2300	250	2550

It should be noted that the total amount of GST still adds up to \$1500, so the overall effect on the books of the business is the same. Both approaches were correct on the condition that the student's response achieved the overall desired result in terms of the effect on the books of the business.

Question 2 – Slumber City

2.1.1

Marks	0	1	Average
%	31	69	

Purchase Return

Most students recognised that a Credit Note issued to Slumber City would be evidence of a Purchase Return. Some students opted for the response 'Sales Return'. This may indicate that some students may have examined Document A incorrectly.

2.1.2

Marks	0	1	Average
%	38	62	

Original

This question was well handled by the majority of students. As the document was created by the business trading as Snoreville, the original would be issued to Slumber City, with a copy of the document being kept by Snoreville.

2.1.3

Marks	0	1	2	3	4	5	6	Average
%	17	6	6	7	10	20	33	

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General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jan 20	Sales Returns	3 000			
	GST Clearing	300			
	Debtors Control		3 300		
	Star Travel Motel				3 300
	Stock Control	2 000			
	Cost of Sales		2 000		
Jan 22	Creditors Control	2 200			
	Snoresville			2 200	
	Stock Control		2 000		
	GST Clearing		200		

This question had two distinct parts. The entries for the Sales Return were allocated four marks, with the remaining two marks being awarded for the Purchase Return entries. The four marks for the Sales Return were allocated as follows (one mark each):

- debit entry to Sales Returns
- debit entry to GST Clearing
- credit entries to both Debtors Control and the subsidiary account for Star Travel Motel
- double entry to Stock Control and Cost of Sales.

This question was handled well, with the most noticeable error being the omission of the cost price entry to Stock Control and Cost of Sales. Some students also omitted the entry to the subsidiary ledger account, thus losing the one mark available in this area. Another common error was the omission of the GST entry. There was noticeable improvement in the correct use of titles.

The Purchase Return allocation of two marks was made as follows:

- one mark for the debit entries to both Creditors Control and the subsidiary account for Snoresville
- one mark for the two credit entries to Stock Control and GST Clearing.

Similar errors were made in relation to the Purchase Return. The subsidiary account was often omitted, as was the GST Clearing entry.

2.2.1

Marks	0	1	2	3	4	5	6	7	8	9	10	11	12	Average
%	11	4	4	5	5	5	5	5	5	8	10	11	24	7.5

DEBTORS CONTROL

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$
Jan 1	Balance	80 000	Dec 31	Bad Debts	25 200
Dec 31	Credit Sales	630 000		Discount Exp	12 600
				Bank	597 200
				Balance	75 000
		710 000			710 000

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The four marks available for the Debtors Control account were allocated as follows:

- one mark for the opening and closing balances
- one mark for each of the sales, bad debts and discount expense entries.

This account was well answered, with many students demonstrating sound knowledge of the basic ledger account template. Students who attempted this question but did not receive full marks often simply overlooked one item, with the error usually being bad debts or discount expense.

CREDITORS CONTROL

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$
Dec 31	Bank	325 000	1 Jan	Balance	45 000
	Balance	50 000	Dec 31	Stock Control	330 000
		375 000			375 000

STOCK CONTROL

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$
1 Jan	Balance	100 000	Dec 31	Cost of Sales	300 000
Dec 31	Creditors Control	330 000		Stock Write Down	10 000
				Balance	120 000
		430 000			430 000

The Creditors Control and Stock Control accounts were assessed together for a maximum of five marks, which were allocated as follows (one mark each):

- opening and closing balances in Creditors Control
- opening and closing balances in the Stock Control
- double entry in Stock Control and Creditors Control. This entry recorded the cost price of credit purchases made during the period
- Cost of Sales
- Stock Write Down.

In general, these two accounts were also well prepared by students. Poorer responses reversed some of the entries, including the balances. Some omissions were also made, most commonly with Cost of Sales and Stock Write Down.



RENT REVENUE

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$
Dec 31	Profit and Loss summary	24 000	Dec 31	Bank	22 000
				Accrued Rent Revenue	2 000
		24 000			24 000

The last account, consisting of three entries, was allocated three marks and proved to be the most poorly answered. This question required the Bank figure to be determined by reconstructing the ledger account; however, many students failed to read the question carefully and recorded the Bank entry as \$24 000. These students failed to recognise that the Rent revenue earned was \$2000 per month and therefore \$24 000 for the year. As \$2000 owed at the end of the period, the rent received must have been \$22 000.

Overall this question was very well answered by many students. Students should know the basic ledger account templates and practise reconstructions of accounts when preparing for the November examination.

2.2.2

Marks	0	1	2	3	4	5	Average
%	16	7	12	18	23	25	3

Budgeted Profit and Loss Statement for Year Ended 31 December 2010

	\$	\$
Credit Sales		630 000
less Cost of Goods Sold		
Cost of Sales		<u>300 000</u>
Gross Profit		330 000
Stock Write Down		<u>10 000</u>
Adjusted Gross Profit		320 000
Add Other Revenue		
Rent Revenue		<u>24 000</u>
		344 000

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	\$	\$
Less Other Expenses		
Wages	122 000	
Bad Debts	25 200	
Discount Expense	12 600	
Other Expenses	<u>50 000</u>	<u>209 800</u>
Net Profit		134 200

This question was an example of how the number of items to be reported in an accounting report does not necessarily equate to the number of marks available. The five marks for this report were allocated as follows (one mark each):

- Sales and Cost of Sales
- Stock Write Down and Adjusted Gross Profit
- Rent revenue and the sub-total of \$344 000
- any two correct expense items
- the remaining two expense items.

Students should note that marks were also deducted for including alien items (such as assets or liabilities), using incorrect titles and for basic formatting errors, such as omitting the final title Net Profit, not determining an adjusted Gross Profit figure or adding Cost of Sales rather than deducting it. As the format of the Profit and Loss statement is specified in the *VCE Accounting Study Design*, students are expected to follow this prescribed format. Variations to the format are not accepted and will be penalised.

2.2.3

Marks	0	1	2	3	4	Average
%	21	8	14	23	34	2.4

Budgeted Balance Sheet as at 31 December 2010 (extract)

Current assets	\$	Current liabilities	\$
Debtors Control	75 000	Bank Overdraft	28 500
Stock Control	120 000	Creditors Control	50 000
Accrued Rent Revenue	2 000		

The four marks for this question were allocated as follows (one mark each):

- including both Debtors Control and Stock Control as current assets
- Accrued Rent Revenue of \$2000
- Creditors Control as a Current liability
- Bank overdraft as a Current liability.

This question was well handled by many students. However, many others did not read the information in the question carefully. Common errors included:

- recording the bank overdraft as a current asset, despite the fact that it was labelled as a Cr. Balance
- reporting the Accrued Rent Revenue as \$22 000, which was the amount expected to be received

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- omitting the Accrued Rent Revenue
- creating new values for either Debtors Control or Stock Control, despite this information being provided in the question.

2.2.4

Marks	0	1	2	3	4	Average
%	36	9	11	15	29	1.9

Cash Flows from Operations (extract) for Year Ended 31 December 2010

Cash Inflows from Operations		
Receipts from Debtors	597 200	
Rent Revenue	<u>22 000</u>	619 200
Cash Outflows from Operations		
Payments to Creditors	(325 000)	
Wages	(122 000)	
Other Expenses	<u>(40 000)</u>	<u>487 000</u>
Net Inflow		132 200

The four marks available were allocated to the following cash flows (one mark each):

- Receipts from Debtors
- Rent Revenue
- Payments to Creditors and Wages
- Other Expenses.

Some students continue to include alien items in the Cash Flow Statement. This problem occurs most commonly with Cash Flow Statements.

Depreciation was the most common error in this question but Cost of Sales was also included by many students. Students had to recognise that the Other Expenses of \$50 000 included \$10 000 of depreciation. This had to be deducted before expenses were included in the report of cash flows at the value of \$40 000. In Question 1.1.4, students were asked to state the effect of depreciation on the cash flows of the business. Many students correctly stated that depreciation does not affect cash flows. However, given the data for the Cash Flow Statement they then proceeded to include it as an operating item in this question.

2.2.5

Marks	0	1	2	Average
%	64	12	24	0.6

By preparing monthly budget Cash Flow Statements, management is able to monitor actual cash flows more effectively. This would allow early identification of adverse trends and allow management to take more timely corrective action.

This type of question has been used on several previous examinations in relation to budgeted cash flows. The better answers referred to more timely reporting, earlier identification of problem areas and making decisions earlier in order to improve the business. The general theme was that of better timing, more accurate reporting and earlier decision making.

Poorer responses focused on the need to prepare variance reports. These should be prepared for all budgeted cash flows, whether they are prepared for a week, a month or a year. Students needed to focus on a shorter budget period being more advantageous for management in relation to problem areas and decision making.

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2.3.1

Marks	0	1	2	Average
%	40	38	22	1.2

General Journal

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 31	Accrued Rent Revenue	2 200			
	Rent Revenue		2 200		

One mark was allocated for each entry in the General Journal. Some students reversed the two entries, while others failed to recognise that the Rent Revenue per month had increased to \$2200, rather than the previous amount of \$2000. As the double entry required was a standard double entry for accrued revenue, it was disappointing to note that this was not attempted by many students.

2.3.2

Marks	0	1	2	Average
%	40	38	22	0.8

Profit and Loss Variance Report (extract) for Year Ended 31 December 2010

Account	Actual	Budgeted	Variance	F/U
Rent Revenue	25 000	24 000	1 000	F

This question created obvious confusion for some students. Two marks were allocated to the question and two lines were provided in the boxes in the answer booklet. However, there was only one item required to be listed. The report was headed Profit and Loss Variance Report and items relating to Rent Revenue had to be included. Some students erroneously included Accrued Rent Revenue, which is an asset account. This item therefore had no place in the variance report.

The question was assessed as follows:

- one mark for the correct values in the Budgeted and Actual columns
- one mark for correctly determining the variance amount and correctly labelling it as F (favourable)
- alien entries (such as Accrued rent revenue) were penalised one mark.

Students are strongly advised to read every question carefully and use their accounting knowledge to determine which items should be included. Alien items will always be penalised and asset accounts should never be included in a Profit and Loss Variance Report.

2.3.3

Marks	0	1	Average
%	66	34	0.4

Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Rent Rev.	Sundries
Jan 31	Accrued Rent Revenue	741	4 400							2 200
	Rent Revenue								2 200	

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Students had to complete both lines accurately to receive one mark. Common errors included:

- not recognising any of the \$4400 as revenue for the new reporting period
- including the Rent Revenue under the heading of Sundries
- splitting the receipt of \$4400 into two separate receipts
- using an incorrect title for Accrued Rent Revenue.

2.4.1

Marks	0	1	Average
%	34	66	0.7

Liquidity is a measure of the business's ability to meet their short-term debts as they fall due.

In order to be awarded the one mark available, students should have provided a full response to the question. This question should have been well answered by most students as it has been used on several past examinations. It was disappointing to note that some students still equate liquidity to measuring the profit of a business.

2.4.2

Marks	0	1	2	3	Average
%	19	27	29	24	1.6

Working Capital and Quick Asset ratios have improved marginally but the business may still have difficulty in meeting its debts on time. Debtors and stock turnover have deteriorated, meaning it is taking longer to convert these assets into cash, which will worsen the liquidity position. The increases in Working Capital and Quick Asset ratios are likely to be caused by the build-up of debtors and stock balances. Hence no improvement in liquidity is likely to have occurred.

This question required students to discuss whether or not liquidity improved. Given the information provided in the question booklet there was plenty of scope to discuss the liquidity situation of the business. Some students argued that liquidity had improved, based on the changes in the Working Capital and Quick Asset ratios. This was a valid point but better responses went on to also point out that the changes in the turnover indicators mean that the business is waiting a lot longer to collect cash from its investment in stock. This question provided scope for the better students to demonstrate their knowledge of accounting and the use of financial indicators.

2.4.3

Marks	0	1	Average
%	50	50	0.5

Cash Flow ratio

Interest cover ratio

At first glance this final question on the examination may have seemed straightforward and relatively easy. However, this did not prove to be the case for many students. Many students stated ratios that did not relate to liquidity, such as Net Profit Ratio and Return on Investment. Others simply left this question blank. Students are reminded to refer to the list of financial indicators included in the *VCE Accounting Study Design* and ensure that they know the names of the various ratios and whether they measure profitability, efficiency or liquidity.