

COMMERCE PRESENTATIONS AND PUBLICATIONS



ACCOUNTING

2010

Practice examination 2

**ANSWERS/SOLUTIONS
AND ADVICE**

Question 1 Melody's Music

1.1.1

Melody's Music

Variance Report extracts at 31 December 2010

Cash Flow Variance Report

	Budget	Actual	Variance	F/U
	\$	\$		
Cash Sales	270 000	255 000	(15 000)	U
Prepaid Sales Revenue	-	2 000	2 000	F
Wages	110 000	130 000	(20 000)	U
Payments to Creditors	350 000	370 000	(20 000)	U

Profit & Loss Variance Report

Sales	840 000	870 000	30 000	F
Wages	113 000	135 000	(22 000)	U
Depreciation - Vehicles	40 000	60 000	(20 000)	U

Balance Sheet Variance Report

Creditors Control	50 000	65 000	(15 000)	U
Accrued Wages	3 000	5 000	(2 000)	U

4 marks

- 1 mark for Cash Flow Variances
- 1 mark for Cash Flow F/U
- 1 mark for Profit and Loss Variances and F/U
- 1 mark for Balance Sheet Variances and F/U

Notes to students: students should avoid writing UF to indicate an Unfavourable Variance. Assessors assume students are unsure if the variance is favourable or unfavourable and are having 'two bites of the cherry'. Students do not gain a mark if they write UF.

1.1.2

Explanation: Variance reports allow a business to compare their plans with the actual
events. Discrepancies can then be identified and the business is able to take corrective
action to control future unfavourable events.
Can also lead to improved budgeting in the future.

2 marks

- 1 mark for comparing budgeted to actual figures
- 1 mark for ability to take action to avoid future variances/improve future budgeting.

Notes to students: 'Explain' questions require students to identify 2 points and these points must be linked. In the answer above there is a link between identifying variances and avoid similar issues in the future.

1.1.3

Wages Expense: The business has hired a new employee, probably on a casual/part
time basis given the amount of the variance. Giving a wage rise is also a possibility.
Cash Sales: Overall sales have increased yet cash sales were less than expected. The
Business may have decided to not offer discounts for cash so customers switch to credit.
Creditors Control: An increase in Sales would lead to more stock being purchased.
this may put pressure on cash flow and Creditors may not be paid as quickly – leaving a bigger balance at end.

3 marks

- 1 mark for each appropriate reason provided

Notes to students: responses/reasons provided must be logical and linked to the actual movement and the variance.

1.1.4

Explanation: Liquidity is the ability of a business to meet its short term financial
commitments as they fall due. On balance, liquidity has deteriorated as the indicator of immediate liquidity (QAR) has worsened
Liquidity: Deteriorated

2 + 1 = 3 marks

- 1 mark for meet short term financial commitments
- 1 mark for 'as they fall due'
- 1 mark for improved

1.1.5

Reason: Increase in the value of Stock on hand – greater than the increase in Creditors.
Explanation: WCR has increased which suggests that CA (Bank, Stock and Debtors)
have increased by more than Creditors. However, as QAR has worsened, this suggests
that the increase in CA was the primary result of an increase in Stock as Stock is
excluded from the calculation of QAR.

1 + 2 = 3 marks

- 1 mark for the reason
- 1 mark for causes of increase in WCR
- 1 mark for cause of decrease in QAR and link between the two ratios

1.1.6

Classification: Current Liability
Explanation: The Prepaid Sales Revenue represents a present obligation arising from a past event that will result in a future outflow of economic resources. This outflow is expected to occur within the next 12 months.

1 + 2 = 3 marks

- 1 mark for Current Liability
- 1 mark for present obligation
- 1 mark for future outflow occurring within 12 months

Notes to students: When required to identify the classification of an item students must state whether the item is Current or Non-current AND the explanation must be linked to the classification

1.2.1 GENERAL JOURNAL

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jan 7	Prepaid Sales Revenue	2 000			
	Sales Revenue		2 000		

SALES JOURNAL

Date 2011	Debtor	Inv. No.	Cost Price	Sales Price	GST	Total Debtors
Jan 7	Bass Secondary College	MM17	2 500	3 000	500	3 500

6 marks

- 1 mark for each line of the General Journal = 2 marks
- 1 mark for date/Name of debtor in full and Invoice No
- 1 mark for Cost Price in Sales Journal
- 1 mark for GST in Sales Journal
- 1 mark for Sales Price and Total Debtors in Sales Journal

Note for students: the Total Debtors must equal the Balance owing from the Invoice. Students may decide to include part of the Cost of Sales and stock control entry in the General Journal as they assign the cost price to the Prepaid Sales Revenue. Whilst this is not the recommended approach it is not incorrect. If students were to adopt this approach the Cost Price amount in the Sales Journal would be only 1 500 and an entry would appear in the general Journal for \$1 000.

1.2.2

CASH RECEIPTS JOURNAL

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
Jan 20	Bass Secondary College	57	3 390	110	3 500				

2 marks

- 1 mark for Date, Details, Rec No.
- 1 mark for Bank, Disc Exp and Debtors
- Discount applies to the full amount of the Sale (which was \$5,500)

1.2.3

Explanation: Efficiency Offering discounts is a means of encouraging Debtors to pay
early, thus leading to a quicker turnover of Debtors as cash is received quicker from debtors and indicates an improved management of debtors.
Explanation: Profitability Discounts are an expense to the business and by offering
discounts to Debtors the business is potentially increasing its expenses, leading to a
decline in profitability.

2 + 2 = 4 marks

- 1 mark for discounts encouraging debtors to pay
- 1 mark for explanation of improving Efficiency
- 1 mark for increase in expenses
- 1 mark for worsening profitability

Note for students: the explanation for the decline in profitability is what assessors will expect from students. However, some students will note the provision of discount expense can actually serve to raise overall profitability over time given that it can reduce bad debts expense and/or increase sales revenue from customers attracted to businesses offering credit terms – both of which can outweigh the negative profit impact from the discount expense itself. Students will be rewarded for making these connections.

1.3.1**Cash Payments Journal**

Date 2011	Particulars	Chq. No.	Bank	Disc. Rev	Creditors	Stock	Wages	GST	Sundries
Mar 1	Sundry Creditor – Ace Motors	65	4 500						4 500
Jun 1	Vehicle	87	3 300					300	3 000
Oct 1	Equipment	133	6 600					600	6 000

3 marks

- 1 mark for each entry in the CPJ
- Titles are important -1 if titles incorrect.

Note for students: students must ensure they are aware of the difference in treatment and recording of a Sundry Creditor. Past examination papers reveal that students continue to make errors in this area.

1.3.2**Working space**

Old Vehicle = $36,000 \times .1 = 3,600/12 = 300 \times 2 \text{ months} = \600

New Vehicle 1 = $45,000 \times .1 = 4,500/12 = 375 \times 10 \text{ months} = \$3,750$

New Vehicle 2 = $30,000 + 3,000 = 33,000 \times .1 = 3,300/12 = 275 \times 7 \text{ months} = \$1,925$

Depreciation Expense \$ 6,275

4 marks

- 1 mark for the depreciation of the Vehicle sold
- 1 mark for the depreciation of the new Vehicle purchased
- 2 marks for the depreciation of the Vehicle contributed by the owner

1.3.3**Vehicle**

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
Jan 1	Balance	36 000	Mar 1	Disposal of Vehicle	36 000
Mar 1	Sundry Creditor – Ace Motors	45 000			
Jun 1	Capital	30 000	Dec 31	Balance	<u>78 000</u>
	Bank	<u>3 000</u>			
		<u>114 000</u>			<u>114 000</u>

Disposal of Vehicle

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
Mar 1	Vehicle	36 000	Mar 1	Accumulated Depreciation - Vehicle	16 600
				Sundry Creditor – Ace Motors	18 000
				Loss on Disposal of Vehicle	<u>1 400</u>
		<u>36 000</u>			<u>36 000</u>

3 + 4 = 7 marks

- 1 mark for each entry on the debit side of the Vehicle account [3]
- 1 mark for debit entry in Disposal of Vehicle account and credit entry in Vehicle account [1]
- 1 mark for each credit entry in Disposal of Vehicle account [3] – Accumulated Depreciation is \$16 000(given in information) plus \$600 for 2 months depreciation charged prior to disposal
- -1 max for incorrect titles

Note for students: when completing a 'Disposal of Vehicle' ledger account it is important that students balance the account. This will ensure students gain the majority of marks as consequential errors will be rewarded.

1.3.4

Classification: Investing Activity - Outflow

1 mark

- The response must state Outflow

Note for students: This type of question regularly appears in exams and is used as a discriminator. Response must identify the activity as an Inflow or Outflow or no mark will be awarded.

Total 45 marks

Question 2 AM Electrical

2.1.1 DEBTORS CONTROL

Date 2011	Cross-reference	Amount	Date 2011	Cross-reference	Amount
Jan 1	Balance	28 000	Jun 30	Bad Debts	2 700
Jun 30	Sales	270 000		Sales Returns	2 500
				Discount Expense	5 400
				Bank	257 400
				Balance	<u>30 000</u>
		298 000			298 000

4 marks

- 1 mark for Sales
- 1 mark for Bad Debts/Discount Expense (c)
- 1 mark for Sales Returns and Closing Balance
- 1 mark for Bank (c)

2.1.2 CREDITORS CONTROL

Date 2011	Cross-reference	Amount	Date 2011	Cross-reference	Amount
Jun 30	Bank	220 000	Jan 1	Balance	42 000
	Discount Revenue	5 000	Jun 30	Stock Control	<u>219 000</u>
	Balance	<u>36 000</u>			
		261 000			261 000

2 marks

- 1 mark for Bank/Discount Revenue
- 1 mark for Stock Control (c)

2.1.3 STOCK CONTROL

Date 2011	Cross-reference	Amount	Date 2011	Cross-reference	Amount
Jan 1	Balance	46 000	Jun 30	Cost of sales	135 000
Jun 30	Bank	76 000		Cost of sales	147 000
	Creditors Control	219 000		Creditors Control	1 250
	Cost of sales	1 250		Drawings	3 000
				Stock Loss	2 950
				Balance	<u>53 050</u>
		342 250			342 250

6 marks

- 1 mark for Bank/Creditors Control (c)
- 1 mark for Cost of Sales (debit) and Creditors Control (credit)
- 1 mark for Drawings/Stock Loss
- 1 mark for each Cost of Sales entry [2]
- 1 mark for Closing Balance

Note for students: when reconstructing accounts it is not necessary to use correct titles. However, when done poorly, incorrect titles make assessment more difficult. Students are encouraged to use correct titles at all times.

2.1.4 Budgeted Cash Flow Statement for 6 months ending 30 June 2011 (Extract)

Cash Flow from Operating Activities	\$	\$
Cash sales	294 000	
Cash received from Debtors	257 400	551 400
Payments to Creditors	(220 000)	
Wages	(88 000)	
Accrued Wages	(4 000)	
Stock Control	(76 000)	
Prepaid Rent Expense	(33 000)	
Other Cash Expenses (including Interest Expense)	(66 000)	(487 000)
NET CASH FROM OPERATING ACTIVITIES		64 400

5 marks

- 1 mark for Cash Sales
- 1 mark for Receipts from Debtors/Payments to Creditors
- 1 mark for Wages
- 1 mark for Accrued Wages/Stock Control
- 1 mark for Other Cash Expenses
- -1 max for incorrect titles
- Watch for consequential

2.1.5 Budgeted Profit and Loss Statement for 6 months Ended 30 June 2011

	\$	\$
Revenue		
Cash Sales	294 000	
Credit Sales	<u>270 000</u>	
	<u>564 000</u>	
Less Sales Returns	(2 500)	561 500
Less Cost of Goods Sold		
Cost of Sales		<u>280 750</u>
= Gross Profit		280 750
Less Stock Loss		<u>2 950</u>
= Adjusted Gross Profit		<u>277 800</u>

3 marks

- 1 mark for Net Sales
- 1 mark for Cost of Sales (\$282 000 - \$1 250)
- 1 mark for Stock Loss
- -1 mark if headings not shown

Note for students: Budgeted reports utilise the same templates and format as actual reports prepared in Unit 3. Students should memorise and be confident in the use of the templates of the reports.

2.1.6

Explanation: Cash and profit are different resources. The adjusted Gross profit is the profit made on the buying and selling of stock while cash flow from Operating Activities is the cash surplus from the day to day operation of the business. Not all cash received is revenue and not all stock expenses incurred are in the form of cash

Example 1: Stock Loss/Sales Returns decrease Adjusted Gross Profit but have no effect on cash

Example 2: Receipts from Debtors was less than Credit Sales resulting in the Adjusted Gross Profit increasing by more than cash flow

2 + 2 = 4 marks

- 1 mark for profit and cash different resources
- 1 mark for not all cash is revenue/not all stock expenses are cash
- 1 mark for each example given
- Note: Examples must relate to Adjusted Gross Profit and/or Net Cash from Operating Activities

Note for students: in these types of questions students must provide examples from the scenario. 'Rote learned' answers will not always be acceptable because in some circumstances there may not be a Stock Loss (as there is in this question) and therefore such an example would be considered incorrect

2.1.7

Explanation: Budgets are a plan for the future – they allow the business to see what is expected to occur in the next period. This allows the business to identify potential problem areas and take corrective action.

2 marks

- 1 mark for budgets being a plan for the future
- 1 mark for identifying potential problems and taking corrective action

2.2.1

GENERAL JOURNAL

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 31	Accrued Interest Revenue	375			
	Interest Revenue		375		

2 marks

- 1 mark for each line in GJ
- No abbreviations permitted
- If the amount is incorrect but debit and credit entries are correct then students lose only
- 1 mark as the second error is regarded as a consequential error.

2.2.2

Explanation: Accrued Interest Revenue represents a future inflow of economic
resources as a result of a past transaction. This inflow will occur with the next 12 months
meaning the item will be classified as a Current Asset in the Balance Sheet.

2 marks

- 1 mark for future inflow of economic resources
- 1 mark for inflow expected within 12 months

2.2.3

CASH RECEIPTS JOURNAL

Date 201 2	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Other Rev.	GST	Sundries
Jan 31	Accrued Interest Revenue	97	450							375
	Interest Revenue							75		

2 marks

- 1 mark for each line of CRJ

Note for students: This type of question continues to appear on the exam as students continue to record the two amounts incorrectly. The amounts must be shown separately with only 1 total. Complaints are often made that the Answer Book doesn't provide enough space to write full titles. While assessors are aware of this, students are required to make every effort to fit in the full title and not abbreviate.

2.3.1**Working space**

Invoice cost - \$220

Customs Duty - \$10

Cost \$ 230

1 mark

2.3.2**Explanation:** Net profit would be lower as the cost of goods sold would be higher as all

The cartage and freight charges would be expensed in the period in which they were

Incurred and not allocated to only the items sold.

2 marks

- 1 mark for identifying impact on net profit
- 1 mark for explanation

2.4.1**GENERAL JOURNAL**

Date 2012	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Sep 17	Stock Write Down	1 350			
	Stock Control		1 350		
	Stock write down of 23 Dysen Vacuum Cleaners to net realisable value due to release of new model Memo 5				

4 marks

- 1 mark for amount
- 1 mark for correct Dr entry
- 1 mark for correct CR entry
- 1 mark for suitable narration that includes Memo 5, Qty and items of stock written down and appropriate reason.

2.4.2

Explanation: The Accounting Principle of Conservatism states that losses should be

recorded and reported as soon as known. The business has recognised that the stock is

not able to be sold at a price that will make a profit as it has been replaced by a newer model, and so should recognise the loss now.
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Accounting Principle: Conservatism

2 + 1 = 3 marks

- 1 mark for recognise losses as soon as they are known
- 1 mark for recognition that loss has already occurred
- 1 mark for Conservatism

2.4.3

Explanation: Stock Write Down is an expense which will decrease the profitability of

the business.

Stock Write Down decreases Adjusted Gross Profit and hence Net Profit, leading to a

worsening of profitability measures

2 marks

- 1 mark for expense
- 1 mark for lowering profit and hence profitability

2.4.4

Indicator: Net Profit Rate/ Return on Owners Investment/Gross Profit Rate
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1 mark

Note for students: Students must use full title of ratio. Abbreviations, such as GPR, are unlikely to be acceptable

Total 45 marks