



2013

Accounting GA 3: Examination

GENERAL COMMENTS

The 2013 VCE Accounting examination was the first end-of-year examination assessing both Units 3 and 4. The duration was increased to two hours, and there was no mid-year examination in 2013.

Timing issues remain a challenge for some students. It appeared that some students may have had difficulty in managing their time in order to adequately respond to all questions presented. Students are advised to always consider the allocation of marks and the space provided for responses for each question, particularly where a written response is required. If a question has been allocated six marks, students would be expected to provide more than just a few dot points. There is little point in writing a full-page response to a two-mark question, as the time taken to do so may prevent some students from responding to other questions on the examination.

Students are also advised to read every question carefully, as some responses did not answer the question presented. For example, Question 9b. required students to comment on the implications of changes in the level of the debt ratio. This question did not relate to debtors or the ability of the business owner to collect debts from its credit customers. It was very disappointing to see a significant number of students discussing issues relating to debt collection. Their responses should have referred to changes in the amounts owed as liabilities of the business. Some students were not fully aware of how to record entries in ledger accounts. Rather than using correct cross-references, some students used document numbers or the names of journals. Teachers are advised to pay particular attention to this area and remind students of the correct recording method.

Students need to be prepared to respond to a range of question types. Questions asking students to 'discuss' require particular attention. In 2013 there were some excellent responses to Question 5; however, it was disappointing that some students only wrote one or two lines in their answer book. The question was based on a graph of budgeted cash flows, and students were asked to discuss the owner's assessment of Bargain Bookshop's performance. Students could draw on all their accounting knowledge when responding to this question. For example, students may have considered the question 'Is historical profit a better indicator of performance than budgeted cash flows?' This creates a great discussion point and allows a student to demonstrate a thorough knowledge of accounting and its related reports. Students are encouraged to include a range of relevant issues and considerations as part of their responses to these types of questions.

In regard to the three key accounting reports, this examination only required students to complete part of a Cash Flow Statement and an Income Statement extract. It should be noted that students are expected to be able to prepare/complete all reports and answer questions asked in a variety of ways.

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SPECIFIC INFORMATION

This report provides sample answers or an indication of what the answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

The statistics in this report may be subject to rounding errors resulting in a total less than 100%.

Question 1

1a.

Marks	0	1	Average
%	39	61	

Calculation

Discount expense = (18 000 + 15 000 + 10 000 + 1500) – 44 000 = 500

Total of the 'Discount Expense' column in the Cash Receipts Journal

\$500

Although the majority of students could successfully determine the amount of discount expense, this question was a problem for some. A common error was to include the Cost of Sales amount, which is not a cash item.

1b.

Marks	0	1	2	3	4	5	6	7	8	Average
%	15	7	7	8	9	9	13	16	17	

Sales Journal (summary)

Date 2013	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
22 April	Totals to date	–	20 000	30 000	3 000	33 000
25 April	Joe's Gym	201	1 200	1 800	180	1 980
			21 200	31 800	3 180	34 980

Purchases Journal (summary)

Date 2013	Creditor	Invoice Number	Stock Control	GST	Creditors Control
22 April	Totals to date	–	25 000	2 500	27 500

Cash Receipts Journal (summary)

Date 2013	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
22 April	Totals to date	–	44 000	500	18 000	10 000	15 000	10 000	1 500
28 April	Sales	430	4 950			3 000	4 500		450
			48 950	500	18 000	13 000	19 500	10 000	1 950

Cash Payments Journal (summary)

Date 2013	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Insurance	Sundries	GST
22 April	Totals to date	–	46 800	1 000	19 000	–	12 000	4 000	12 400	400
29 April	Prepaid Advertising	555	2 640						2 400	240
			49 440	1 000	19 000	–	12 000	4 000	14 800	640

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General Journal

Date 2013	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
24 April	Sales Returns	1 440			
	GST Clearing	144			
	Debtors Control		1 584		
	B. Green				1 584
	Stock Control	960			
	Cost of Sales		960		
	Return of 8 MP3 Players – CN 34				
27 April	Advertising	600			
	Stock Control		600		
	Donation of 5 MP3 Players to local school – Memo 44				

Question 1b. required students to take data from business documents and record the details in appropriate journals. Recording financial information in journals is an essential part of the study design and all students should practise their skills in this important area. Marks were awarded as follows.

- one mark for the entry of the credit sale in the Sales Journal
- one mark for the entry of the cash sale in the Cash Receipts Journal
- one mark for the payment of Prepaid Advertising in the Cash Payments Journal
- three marks for recording the sales return in the General Journal (Two marks were allocated for the selling price entries and one mark for the cost price entry.)
- one mark for the advertising entry in the General Journal
- one mark for having two detailed narrations in the General Journal

Common errors for Question 1b. included

- incorrectly applying the mark-up of 50% to determine the cost price in both the Cash Receipts Journal and the Sales Journal
- using the incorrect title for Prepaid Advertising. Some students used 'Advertising expense', which is incorrect
- failing to record the GST on the advertising payment
- failing to total the journal columns, as instructed in the question
- recording a purchases return in the General Journal, rather than a sales return
- omitting the subsidiary ledger account entry for B Green
- using an incorrect title in the General Journal for the donated goods. The correct entry is advertising, but some students recorded 'Donations expense'
- using narrations that lacked detail, or omitting the narrations completely.

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1c.

Marks	0	1	2	3	4	5	6	7	8	9	Average
%	19	7	7	5	5	6	6	8	14	22	4.9

Stock Control

Date 2013	Cross-reference	Amount	Date 2013	Cross-reference	Amount
1 April	Balance	31 000	30 Apr	Advertising	600
30 Apr	Creditors Control	25 000		Cost of Sales	21 200
	Cost of Sales	960		Cost of Sales	13 000
				Balance	22 160
		56 960			56 960
1 May	Balance	22 160			

GST Clearing

Date 2013	Cross-reference	Amount	Date 2013	Cross-reference	Amount
30 Apr	Bank	5 000	1 April	Balance	5 000
	Creditors Control	2 500	30 Apr	Debtors Control	3 180
	Bank	640		Bank	1 950
	Debtors Control	144			
	Balance	1 846			
		10 130			10 130
			1 May	Balance	1 846

This question was worth nine marks: four were allocated to the Stock Control account, four to the GST Clearing account, and one mark for following the correct balancing procedures and preparing the accounts for the subsequent reporting period.

It was pleasing to note that a significant number of students achieved the maximum score, yet a similar number of students failed to achieve any marks. Double entry recording in ledger accounts is a significant part of the study design and all students are reminded to revise these processes thoroughly. Far too many students made fundamental errors on this question and it certainly warrants greater attention in the future. Common errors on Question 1c. included

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- combining the two Cost of Sales entries on the credit side of the Stock Control account
- omitting the payment of \$5000 to the ATO from the debit side of the GST Clearing account
- omitting the GST entry for the Sales Return in the GST Clearing account
- reversing the Debtors and Creditors entries in the GST Clearing account
- using incorrect titles in the Cross-reference column, such as the names of journals or document numbers.

1d.

Marks	0	1	2	3	4	5	6	Average
%	31	9	9	11	14	16	10	2.6

Eric's Electronics Cash Flow Statement (extract) for the month ended 30 April 2013

	\$	\$
Cash Flow from Operating Activities		
Cash Sales	19 500	
Receipts from Debtors	17 500	
Prepaid Sales Revenue	1 000	
GST collected	1 950	39 950
Payments to Creditors	(18 000)	
Wages	(12 000)	
Insurance	(4 000)	
Advertising	(2 400)	
Interest paid	(400)	
GST paid	(640)	
GST Settlement	(5 000)	(42 440)
Net Cash Flows from Operations		(2 490)

The six marks available for this question were allocated as follows.

- one mark for Cash Sales and Receipts from Debtors
- one mark for GST collected and GST paid
- one mark for Prepaid Sales Revenue
- one mark for Payments to Creditors, Wages and Insurance
- one mark for Advertising (Prepaid Advertising was also accepted)
- one mark for GST Settlement and Interest paid

This question involved identifying cash flows from the information presented earlier in Question 1. Some students did not answer this question. It is important that students attempt all questions. When information is carried forward from previous questions, any errors made will only be penalised once. Other errors included

- not deducting the discount from either Debtors or Creditors (or both), thus incorrectly reporting the cash flow
- omitting the Prepaid Sales Revenue from the cash inflows
- omitting the GST Settlement from the cash outflows
- omitting the Interest paid from cash outflows.

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Question 2

2a.

Marks	0	1	2	3	Average
%	43	19	22	16	1.1

Qualitative characteristic: Reliability

Explanation: Playgrounds Galore could use this independently prepared document as a checking mechanism against the creditor's subsidiary ledger for Lana's Landscapes. If there are any discrepancies, they could then contact Lana's Landscapes and check back through source documents to find the problem. This assists internal control by ensuring that Playgrounds Galore has accurate accounts and therefore does not pay too much to its creditor.

Some students still have difficulty in distinguishing between accounting principles and qualitative characteristics. Students should not give two responses to this type of question. There is little point in providing a principle and a characteristic as this will not receive any marks. Some students also confused the two businesses and focused their response on maintaining accurate debtors' records, when in fact Lana's Landscapes was a creditor of Playgrounds Galore.

2b.

Marks	0	1	2	3	4	Average
%	13	17	15	21	34	2.5

Debtor – Playgrounds Galore

Date 2013	Cross-reference	Amount	Date 2013	Cross-reference	Amount
1 May	Balance	2 150	8 May	Bank/Discount Expense	2 150
7 May	Sales/GST Clearing	5 500	18 May	Sales Returns/GST Clearing	660
23 May	Sales/GST Clearing	2 200			

The four marks available were allocated as follows.

- one mark for correctly recording the opening balance on the debit side
- one mark for recording the two sales entries, along with the correct amounts of GST
- one mark for the Bank/Discount Expense entry
- one mark for the Sales Returns/GST Clearing entry

Some students performed well on this question. However, some combined the two sales entries, while others posted everything at the end of the month. Incorrect titles were used, as some students simply copied out the details from the statement of account provided. Students are reminded to revise very carefully the correct way of entering information in ledger accounts.

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Question 3

3a.

Marks	0	1	2	Average
%	28	44	29	1

Calculation	
Cost	\$60
+ Customs duty	\$9
+ Rebadging	<u>\$2</u>
	\$71
Unit cost of scooter	
	\$71

Two common errors were made on this question: some students included the GST as part of the cost of the stock, while others added on part of the delivery cost, despite the fact that there was no logical way of allocating such a cost. Trail bikes, soccer balls and scooters were all delivered for a total cost of \$2100. As the delivery costs could not be logically allocated to each individual trail bike, scooter or soccer ball, the total amount should have been treated as a period cost.

3b.

Marks	0	1	2	3	Average
%	25	20	30	26	1.6

Explanation – rebadging cost

The rebadging is a cost incurred to get the item into a condition for sale that can be allocated logically to each individual scooter. It is also a significant dollar amount that will affect management decision-making. It should therefore be treated as part of the cost of the stock item – product cost.

Explanation – GST

GST should never be treated as a product cost or a period cost as it is not an expense of the business. The GST paid on stock purchases will simply reduce the amount of the GST liability owed by the business to the ATO.

While many students performed well on this question, some struggled to explain why the rebadging should be included and GST excluded from the cost of stock. Some students argued incorrectly that GST is paid to get the stock into the business and should be treated as a product cost. It should be understood that GST is never an expense of the business.

3c.

Marks	0	1	2	3	Average
%	49	15	14	22	1.1

Accounting principle: Reporting period

Explanation: If delivery charges were treated as a period cost, the entire cost would be written off as an expense in the current reporting period. However, if the delivery charges were treated as a product cost, it becomes part of the cost of the stock and is only expensed when the stock is sold. This may not happen until the following reporting period. Therefore, unless all of the stock is sold, expenses will be lower in this current reporting period if delivery charges are treated as a product cost, leading to higher net profit. Profit will only be the same if all stock is sold within the current reporting period.

This question proved to be very difficult for many students. Some students simply stated that because product costs and period costs are both expenses, profit will not be affected. Such responses show a lack of appreciation of the effect on profit when an expense is treated as a period cost, rather than a product cost.

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Question 4

4a.

Marks	0	1	2	3	4	5	Average
%	16	20	16	13	14	22	2.6

Stock Card

Product: 25 cm crockpot				Cost Assignment Method: FIFO						
Date 2013	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
30 June	Balance							12 30	55 50	2 160
	Memo 24				3	55	165	9 30	55 50	1 995
	Memo 25				5	40	200	5 4 30	15 55 50	1 795
	Memo 26				4 30	15 10	360	5 34	15 40	1 435

One mark was allocated for the entries for Memo 24, two marks were awarded for Memo 25 and two marks were awarded for Memo 26. Most students made a reasonable attempt at this question, with some not sure how to record the five units that were written down. It is vital that the cost prices of the stock are kept in the order of purchase. This means that the pots that cost \$55 each should be listed before those that cost \$50. Some students recorded the units on hand in a different order, thus breaching the FIFO cost assumption.

4b.

Marks	0	1	2	3	Average
%	24	15	22	39	1.8

General Journal

Date 2013	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 Jun	Stock Loss	165			
	Stock Control		165		
	Stock Write down	560			
	Stock Control		560		

One mark was allocated to the stock loss entry, with the other two marks allocated to the stock write down, which took into account both Memo 25 and 26. Many students realised that the values shown in the 'Out' column of the Stock Card should be simply carried down to the General Journal entries and were rewarded with maximum marks. Some common errors on this question were

- omitting the stock write down entry
- recording a stock gain, rather than a stock loss
- leaving this question blank after making numerous errors in Question 4a.

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Question 5

Marks	0	1	2	3	4	5	6	Average
%	19	14	18	22	16	8	3	2.4

Discussion: There are several things to consider in relation to the owner's assessment of performance. Firstly, there is only budgeted data presented. To be able to assess performance, historical data should also be considered. The budgeted data is presented for one month only, which is extremely limited and may not be representative of the other months of the year. To evaluate performance, revenue earned and expenses incurred should also be considered. Accrual accounting is the most accurate method of measuring profit, and profit should be used as the primary measure of business performance, not just operating cash flows. What we can learn from the graph provided is that a positive result is anticipated in both investing and financing activities. This indicates that the business owner is planning on selling some non-current assets. These may be excess to the needs of the business, or they may be replaced by newer, cheaper and more efficient assets. This is evidenced by the fact that the owner expects to receive \$40 000 from the sale of assets, but is planning to spend only \$20 000 on new assets. Also, in financing activities, the owner expects to have an inflow of \$80 000, but outflows are predicted to be only \$40 000. It appears that the owner is expecting to take out additional loans or perhaps make further capital contributions. The worrying aspect of the cash flow data presented is that operating activities is expected to generate a negative result for the month of December. Bookshops usually make numerous sales in the festive season, so the owner may be concerned about this projected result. However, some of this prediction may be because the owner plans on building up stocks in December, ready for sales during the holiday season. The owner should be aware that it is not sustainable to rely on investing and financing activities while having a negative result in operating activities. It is vital that the budget period be extended beyond the limited one-month forecast so that the owner has a better idea of future cash performance. Budgeted Income Statements should also be prepared before making further comment on the performance of the business.

The more successful student responses included many of the discussion points shown here. However, this type of question is an opportunity for students to demonstrate their knowledge of accounting and a wide variety of responses were presented. There was not one prescribed answer to this question. Students were awarded marks for valid issues, especially if made with supporting evidence. Many students limited their responses to three basic points, such as

- operating activities are expected to be negative
- investing activities are positive
- financing activities are positive.

Students should be prepared to go much further with 'discuss' questions and see it as an opportunity to demonstrate their understanding of the subject matter.

Question 6

6a.

Marks	0	1	2	3	4	Average
%	24	12	26	17	22	2

Explanation: The method chosen should allocate the cost of the asset according to the expected revenue-earning pattern of the asset. If the asset is expected to generate the same amount of revenue each reporting period, the straight line method should be adopted as it allocates the same amount of cost each reporting period.

However, if the asset is expected to be more productive in its earlier years and therefore generate more revenue in those periods, the reducing balance method should be adopted as it allocates more cost in the earlier years and less in the asset's later years, when it is less productive.

This question was answered well by many students, with the differences between the two methods clearly identified. Poorer responses stated that 'if an asset earns the same amount of revenue in each period, the straight line method should be used'. This type of response does not answer the question fully as it fails to explain why the method should be adopted.

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6b.

Marks	0	1	2	Average
%	44	32	24	0.8

Calculation:

30 June 2011: Depreciation = 30% of \$24 000 = \$7200 $\times$ 6/12 = \$3600

30 June 2011: Carrying value = \$24 000 – \$3600 = \$20 400

30 June 2012: Depreciation = 30% of \$20 400 = \$6120

Depreciation Expense for year ended 30 June 2012	\$6120
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This question was not handled well by many students. It was crucial to recognise that in the first reporting period, only six months' depreciation could be allocated. Having determined this amount, the new carrying value had to be determined. Then, in the second reporting period, a full year's depreciation could be allocated. The reducing balance method of depreciation is relatively new to the course and certainly warrants more attention in preparation for future examinations.

6c.

Marks	0	1	2	Average
%	67	21	12	0.5

Explanation: The carrying value represents the amount yet to be allocated as depreciation, plus any estimated residual value expected to be realised at the end of the asset's useful life.

In Question 6b. it became evident that many students have difficulty in calculating depreciation accurately. Question 6c. also provided evidence that the theory behind depreciation is also misunderstood by many students. Far too many students stated that carrying value is the current market value of an asset. This is not true, as depreciation does not attempt to provide an estimate of market value. The purpose of depreciation is to allocate the cost of an asset (less residual value) over the reporting periods that represent the asset's life. This is done to help determine an accurate profit for each reporting period. It does not predict an estimate of current market value.

6d.

Marks	0	1	2	Average
%	32	36	31	1

Calculation

Depreciation = (Cost – Scrap)/Number of years
= \$24000 – \$3000 = \$21 000/4 = \$5250 per annum

To 30 June 2013 is 2.5 years

Accumulated depreciation would be: \$5250 $\times$ 2.5 years = \$13125

Carrying value = \$24000 – \$13125 = \$10875

Carrying value of the equipment at 30 June 2013 if the straight line method of depreciated had been used	\$10 875
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This question required quite a few steps to reach the final determination of carrying value, with the result being that some students could not complete all of the required steps. However, because these students showed their working, many were awarded one mark. This question identified another concern in relation to the students' lack of understanding of the topic of depreciation. In Question 6b., students were required to apply reducing balance depreciation at 30% per annum. In this question, using the straight line method, students were expected to calculate the

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annual amount of depreciation. Far too many students simply applied the rate from the reducing balance method, without considering that straight line depreciation is always applied at a different rate of depreciation.

Question 7

7a.

Marks	0	1	2	3	4	5	6	Average
%	36	7	6	8	12	17	14	2.6

Disposal of Generator

Date 2013	Cross-reference	Amount	Date 2013	Cross-reference	Amount
31 July	Generator	15 000	31 July	Acc Dep'n of Generator	8 800
				Sundry Creditor – Tech Supplies	4 000
				Loss on Disposal of Generator	2 200

Generator

Date 2013	Cross-reference	Amount	Date 2013	Cross-reference	Amount
1 July	Balance	<u>15 000</u>	31 July	Disposal of Generator	<u>15 000</u>
31 July	Sundry creditor – Tech Supplies	22 000			
	Bank	2 000			

The six marks for this question were allocated as follows.

- one mark for closing off the opening balance of the Generator account to the Disposal of Generator account
- one mark for recording the correct amount for accumulated depreciation on the credit side of the disposal account
- one mark for recording the trade-in value in the disposal account
- one mark for correctly determining the loss on sale in the disposal account
- one mark for recording the purchase price of the new generator in the asset account
- one mark for recording the installation costs as 'Bank'.

This question also proved to be a challenge for many students, following on from the issues with depreciation in Question 6. Common errors included

- incorrect titles in ledger accounts, including
 - Depreciation, rather than Accumulated Depreciation
 - trade-in, rather than Sundry Creditor – Tech Supplies
 - loss on sale, rather than Loss on Disposal of Generator
 - installation, rather than Bank in the Generator account
- including the GST as part of the cost of the asset.

Students are also advised not to waste time balancing ledger accounts when the question specifically stated that balancing was not required. No marks will be awarded for such procedures if the question states that it is not required.

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7b.

Marks	0	1	2	Average
%	52	24	24	0.7

Explanation: I agree. A profit on disposal occurs when the proceeds from the disposal exceeds the carrying value of the asset. This means that the depreciation over the asset's life had written the asset down too much, possibly due to understating the useful life of the asset or its estimated residual value. A loss on disposal is the result of under-depreciation and is usually caused by overstating either the estimated residual value or the estimated useful life of the asset.

Many students could not explain how a profit or loss on disposal occurs. It was not sufficient to simply state that a profit happens when you sell an asset for more than carrying value and a loss happens when the opposite takes place. A full explanation required details as to how depreciation is determined and the impact that this has on the carrying value of an asset.

Question 8

8a.

Marks	0	1	2	3	4	5	6	7	Average
%	20	6	9	9	13	14	20	8	3.5

General Journal

30 Jun	Prepaid Sales Revenue	1 000			
	Sales		1 000		
	Accrued Wages	1 400			
	Wages		1 400		
	Drawings	300			
	Stock Control		300		
	Stock Control	550			
	Stock Gain		550		

The seven marks were allocated as follows.

- two marks for the Prepaid Sales adjusting entry
- two marks for the Accrued Wages adjusting entry
- one mark for the Drawings of stock
- two marks for the Stock Gain adjustment

Students provided a range of responses, with many getting most of the entries correct. The first adjustment contained detailed information, yet most of the details of the transaction had already been recorded. Invoice 44 was issued on 29 June, with the Trial Balance being prepared on 30 June. Therefore, details of this invoice would have already been recorded and the only adjustment required was to transfer the prepaid revenue to the sales revenue account.

The second entry was the correction of an error, with accrued wages being accidentally debited to wages. The correction was therefore a credit to the Wages account. Some students were obviously used to debiting Wages on a regular basis, resulting in a basic error on this question.

Most students could correctly record the drawings of stock by the owner. However, some students used the selling price of the stock, rather than the cost price. Another common error was the inclusion of GST in this transaction. Students are reminded that GST is never recorded as part of the cost of stock.

The adjusting entry for the stock gain involved two steps, as the previous adjustment resulted in a credit to Stock Control. Therefore, rather than using the Trial Balance value of \$34 250, after the drawings the balance would have been \$33 950. When this amount was compared to the stocktake value of \$34 500, the result is a stock gain of \$550.

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8b.

Marks	0	1	2	3	Average
%	44	15	19	22	1.2

General Journal

Date 2013	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 Jun	Profit and Loss Summary	200 920			
	Cost of Sales		123 820		
	Buying Expenses		1 000		
	Wages		46 600		
	Other expenses		29 500		

This question was answered poorly by many students. It appears that many students were confused by the previous question and were unsure as to which figures to carry forward to this question. One mark was allocated to the Cost of Sales and Buying Expenses, one to Wages, one to Other Expenses and one for totalling the expenses and making the debit to Profit and Loss Summary. Students are reminded that in sequential questions, they should carry forward their answers, even when they are unsure if the figures from the previous question are correct.

8c.

Marks	0	1	2	Average
%	64	21	14	0.5

Capital

Date 2013	Cross-reference	Amount	Date 2013	Cross-reference	Amount
30 Jun	Drawings	43 100	30 June	Balance	252 000
				Profit and Loss Summary	79 280

One mark was allocated for the Drawings entry on the debit side, with the other mark going to the correct calculation and recording of net profit on the credit side of the account. However, it should be noted that the correct cross-reference in this case is Profit and Loss Summary, not Net Profit.

The other common error on this question was that many students did not read the question carefully and completed a Profit and Loss Summary account.

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8d.

Marks	0	1	2	3	Average
%	33	20	27	21	1.4

Garden Gadgets

Income Statement (extract) for year ended 30 June 2013

	\$	\$
Revenue		
Sales		279 650
Less Cost of Goods Sold		
Cost of Sales	123 820	
Buying Expenses	<u>1 000</u>	124 820
Gross Profit		154 830
Plus Stock Gain		550
Adjusted Gross Profit		155 380

One mark each was awarded for

- the Sales revenue, which had to be adjusted for \$1000 of prepaid revenue
- the Cost of Goods Sold section of the report, along with the calculation of Gross Profit
- the addition of Stock Gain, plus the Adjusted Gross Profit Calculation.

Many students struggled with this question. Teachers and students are strongly advised to revise their techniques in handling these types of questions when there are multiple parts.

Common errors included

- the omission of the prepaid revenue
- the incorrect classification of Buying Expenses
- the omission of the Stock Gain, or the miscalculation of this amount
- failure to complete the report to the Adjusted Gross Profit figure.

Question 9

9a.

Marks	0	1	Average
%	55	45	0.5

Statement of purpose: The Return on Assets (ROA) is an indicator of how productively and efficiently the business has used its assets to earn a net profit.

A common error was to state that the ROA looked at how well the assets generate sales, rather than generating profit. It appears that some students confused the ROA with the Asset Turnover rate.

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9b.

Marks	0	1	2	3	Average
%	47	24	18	11	1

Explanation: Higher levels of debt generally equates to a higher level of risk. One possible implication of an increase in debt could be an increased in repayments, leading to more pressure on the liquid assets of the business. Additional debt would also increase interest expense, which will have a negative effect on net profit. With higher debt repayments the business may not be able to meet them all on time, thus causing damage to the credit rating of the business. The ultimate possible implication of having an increase in debt levels is that the business may face total financial collapse. However, a possible positive implication of higher debt levels is that the owner of the business may be able to increase their personal return on investment by using borrowed funds to buy new assets for the business, rather than making additional capital contributions.

Far too many students linked the Debt Ratio to an evaluation of debtors and the ability of the business to collect debts. The debt ratio examines the reliance of a business on borrowed funds compared to the owner's equity funds. It is not related to debtors.

9c.

Marks	0	1	2	3	4	Average
%	41	25	19	10	5	1.2

Evaluation: Profitability has improved as the business has been using assets more productively and this has provided an increased return to the owner. However, as net profit remained constant, the increase in ROA must have been brought about by reducing the overall level of assets. As the Debt Ratio has increased so much it appears that new assets may have been purchased using borrowed funds and obsolete assets have been sold off. Despite the fact that the ROA has increased it is still below the industry average. It is not a totally positive outlook at this stage, given that net profit has not increased over the period.

Although there were some very good responses to this question, many students simply observed that the ROA has increased over the three year period. A more in-depth evaluation would be required for a question such as 9c.

9d.

Marks	0	1	2	Average
%	28	26	46	1.2

Non-financial items: correct responses included items such as

- customer satisfaction surveys
- the number of repeat customers
- the number of sales returns (not the dollar value)
- staff satisfaction surveys
- state of the economy, evidenced by the number of unemployed at a given time
- the number of hits on the website of the business

This question was handled well by many students. Unfortunately, some students provided financial responses such as net profit and industry averages.

2013 Examination Report



Question 10

Marks	0	1	2	3	4	Average
%	42	17	14	20	8	1.4

Month	Sales	Credit sales + GST Collections
Aug	50 000	
Sep	$40\,000 \times 0.8 = 32\,000 + 3\,200 = 35\,200$	$35\,200 \times 10\% = 3\,520$
Oct	$35\,000 \times 0.8 = 28\,000 + 2\,800 = 30\,800$	$30\,800 \times 35\% = 10\,780$
Nov	$24\,000 \times 0.8 = 19\,200 + 1\,920 = 21\,200$	$21\,200 \times 50\% = 10\,560$
Dec	50 000	
Estimated cash received from debtors for December 2013		\$ 24 860

This question produced a wide variety of responses and was not a straightforward question for many students. Four steps were required in order to answer this question. These were

- determining the value of credit sales per month
- adding on the GST to the credit sales value
- staggering the collection of debts as per the information required (using 50%, 35% and 10%)
- omitting the sales from both August and December, as these were irrelevant to the collections from debtors in the month of December.

Determining estimated collections from debtors or payments to creditors is an integral part of cash budgeting for small businesses that deal on credit. Many students found the application of this knowledge difficult.