



# 2021 VCE Accounting external assessment report

## General comments

The 2021 VCE Accounting examination included eight questions consisting of multiple parts.

Most students were able to complete the examination within the two hours allocated. However, some students did not attempt every question. It is important that students manage their time effectively so they can optimise their chance of success on all questions. Students are advised to allocate time proportionate to the marks allocated to each question to avoid non-completion or attempt of questions.

It is important that students ensure they read each question thoroughly and highlight important parts of the question before attempting. Many students appeared to have misread questions throughout the examination resulting in inaccurate responses.

The use of current study design terminology is an issue that needs to be addressed. The current study design was implemented in 2019 and new terminology include accounts receivable, accounts payable and inventory instead of debtors, creditors and stock. There were a number of students who continued to use the previous terminology within responses. The use of this terminology resulted in students missing out on marks.

Some students were unable to correctly identify the source documents provided in the exam, resulting in them missing out on marks when both recording and describing transactions. When recording a transaction, such as a payment of an invoice or a sales return, students must ensure they are recording the transaction for the correct entity. When recording the payment of an invoice in Question 1, the transaction was recorded in a variety of ways. Some students recorded it as a cash purchase of inventory while others recorded it as a cash receipt. Similar responses were recorded for the sales return in Question 3. Students should practise the use of reading time and identifying the types of source documents to improve their performance in these questions.

When asked to explain the effect of the choice of depreciation method on accounting reports, many students were not able to provide a comprehensive response. Explanation responses needed to provide details such as the actual accounts that will be higher or lower, as well as the amount.

Students found the preparation of complete accounting reports a challenge. Many students were unable to complete the Cash Flow Statement in Question 2b., with a significant number not using the correct formatting for a Cash Flow Statement.

While many students were able to calculate the adjustment for bad debts, the adjustment to the allowance for doubtful debts was problematic for some. Students must ensure that they take into account any amounts that were already written off. Reporting of the allowance for doubtful debts was not done well.

Reconstruction of General Ledger accounts is assessable throughout the entire course, not only in budgeting. When reconstructing a General Ledger account, students need to ensure they use correct cross-reference and dates if possible. Many students did not use correct cross-references, resulting in them not receiving marks.

Students were awarded one mark for each transaction and one mark for correctly balancing each General Ledger account. Question 2a. required students to reconstruct General Ledger accounts based on actual

data, which was provided in a Balance Sheet, an Income Statement and additional information. When reconstructing accounts, students need to ensure that they include dates and correct account titles.

The exam included two discussion questions. The first required students to discuss statements made by a business owner and accountant when reviewing budgeted accounting information, while the second required a discussion of ethical and accounting issues relating to depreciation. Many students obviously used a rote-learned response referring to the impact on the environment when responding to the ethical considerations question. Discussion questions require students to respond specifically to the source material provided to enable students to demonstrate their understanding of the course. Students should be prepared for a range of ethical scenarios.

When approaching 'discuss' questions, students should avoid simply repeating the information provided. While there was a marked improvement in the quality of responses to discussion questions, there were many students who took an 'explain' approach. When practising 'discuss' questions, students should take time to plan a response. This should allow them to improve the complexity of their responses under examination conditions.

## Specific information

Note: This report provides sample answers or an indication of what 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 resulting in a total more or less than 100 per cent.

### Question 1a.

| Mark | 0  | 1  | 2  | Average |
|------|----|----|----|---------|
| %    | 23 | 34 | 42 | 1.2     |

This question required students to describe transactions that were provided in an inventory card.

Most students were able to identify the type of transaction that occurred using the source document provided in the inventory card.

The transaction that occurred on 5 February 2021 was identified using the source document Memo E4. As there are a number of possible transactions that could be identified, correct responses included drawings of inventory, advertising and inventory loss.

The transaction that occurred on 20 February 2021 was identified using the source document EFT 57892. The only acceptable response was a cash sale of five large pots.

### Question 1b.

| Mark | 0  | 1  | 2  | 3  | 4  | Average |
|------|----|----|----|----|----|---------|
| %    | 30 | 15 | 28 | 12 | 15 | 1.7     |

Students were required to explain two reasons why a business would use the First In, First Out (FIFO) inventory cost assignment method.

The FIFO inventory cost assignment method allocates the cost of inventory based on the assumption that the first inventory to arrive in the business is the first inventory that leaves the business.

When inventory items are identical and the purchase price is different, but the inventory can't be separately identified, such as fuel at a service station, the FIFO method would be used.

The FIFO inventory valuation method is easier and cheaper to implement as it does not require the business to separately identify the cost price of each item of inventory when it leaves the business.

Students should avoid responses referring to the effect of profit based on the cost price of inventory rising as this would not have an impact on the owner's choice of inventory cost assignment method.

## Question 1c.

| Mark | 0  | 1  | 2  | Average |
|------|----|----|----|---------|
| %    | 32 | 37 | 32 | 1.0     |

|                                                                       |              |
|-----------------------------------------------------------------------|--------------|
| Cost price of inventory = \$160                                       |              |
| Net Realisable Value = Estimated Selling Price – Cost of Watering Can |              |
| = \$100 – \$10 – \$105 / 7                                            |              |
| = \$75                                                                |              |
| Valuation of 7 pots = 7 * \$75 = \$525                                |              |
| Total value of the large pots                                         | <b>\$525</b> |

One mark was awarded for calculating the Net Realisable Value and one mark was awarded for applying the Net Realisable Value to the seven large pots on hand.

Many students were able to calculate the Net Realisable Value, although they did not multiply it by the number of large pots on hand.

Students should ensure that they read the question in detail, as this question asked for the total value of the large pots.

## Question 1d.

| Mark | 0  | 1  | Average |
|------|----|----|---------|
| %    | 53 | 47 | 0.5     |

### Inventory Card

| ITEM: Large Pots            |            |     |      |       |     |      |       | Cost Assignment Method FIFO |      |       |
|-----------------------------|------------|-----|------|-------|-----|------|-------|-----------------------------|------|-------|
| SUPPLIER: Gourmet Gardening |            |     |      |       |     |      |       |                             |      |       |
|                             |            | IN  |      |       | OUT |      |       | BALANCE                     |      |       |
| Date                        | Document   | Qty | Cost | Total | Qty | Cost | Total | Qty                         | Cost | Total |
| Feb 1                       | Balance    |     |      |       |     |      |       | 12                          | 150  | 1 800 |
| 2                           | Inv. 123   |     |      |       | 8   | 150  | 1 200 | 4                           | 150  | 600   |
| 3                           | Inv. J07   | 11  | 160  | 1 760 |     |      |       | 4                           | 150  |       |
|                             |            |     |      |       |     |      |       | 11                          | 160  | 2 360 |
| 5                           | Memo E4    |     |      |       | 3   | 150  | 450   | 1                           | 150  |       |
|                             |            |     |      |       |     |      |       | 11                          | 160  | 1 910 |
| 20                          | EFT. 57892 |     |      |       | 1   | 150  |       |                             |      |       |
|                             |            |     |      |       | 4   | 160  | 790   | 7                           | 160  | 1 120 |
| 28                          | Memo E5    |     |      |       | 7   | 85   | 595   | 7                           | 75   | 525   |
|                             |            |     |      |       |     |      |       |                             |      |       |

Students were awarded one mark for completing the Inventory Card correctly. The inventory on hand was calculated in the previous question and students were required to adjust the inventory card for the value that they had calculated.

Common errors included:

- not using the correct inventory valuation
- correctly valuing inventory, but not including the adjustment in the Out column
- missing the date and source document.

## Question 1e.

| Mark | 0  | 1  | 2  | 3  | Average |
|------|----|----|----|----|---------|
| %    | 17 | 19 | 42 | 23 | 1.7     |

Source documents are used to satisfy the qualitative characteristic of verifiability. Invoice 215 provides evidence from the independent supplier that the transaction is faithfully represented. Documents are retained for cross-checking and audit purposes and they hold the accounting profession accountable.

One mark was awarded for identifying verifiability as the qualitative characteristic, with the other two marks being awarded for the explanation.

Responses that scored highly were comprehensive and referred to different knowledgeable and independent observers being able to reach a consensus that a particular depiction of an event is faithfully represented. They also displayed an understanding that source documents provided a cross-checking mechanism.

When providing an explanation, students should avoid responses such as source documents support verifiability as they verify the transaction. They should ensure they use the definition of verifiability to support their response.

## Question 1f.

| Mark | 0  | 1  | Average |
|------|----|----|---------|
| %    | 31 | 69 | 0.7     |

|                                                                                     |              |
|-------------------------------------------------------------------------------------|--------------|
| Cost = Purchase price plus all costs to bring the pots into location ready for sale |              |
| Cost per pot = \$110 + \$15 (\$150/10) = \$125                                      |              |
| Cost of one medium pot                                                              | <b>\$125</b> |

The cost price of the medium pot was calculated by adding the cartage in of \$15 per pot to the \$110 cost price of each pot.

The cartage in was able to be separately allocated to each pot as the pots were the only item purchased by Garden Leaf in this transaction.

## Question 1g.

| Mark | 0  | 1  | 2  | Average |
|------|----|----|----|---------|
| %    | 20 | 20 | 60 | 1.4     |

Full marks were awarded to students who were able to justify the allocation of the cartage in as a product cost, as it is a cost incurred in order to get the inventory into location for sale that could be logically allocated to each individual pot.

Common errors included:

- not identifying that the cartage in could be logically allocated to each item of inventory
- treating cartage in as a net realisable value issue and reducing the cost price of the inventory.

## Question 1h.

| Mark | 0  | 1  | 2  | 3  | Average |
|------|----|----|----|----|---------|
| %    | 35 | 20 | 21 | 24 | 1.4     |

### General Journal

| Date    |                                                                                                  | Debit | Credit |
|---------|--------------------------------------------------------------------------------------------------|-------|--------|
| 2021    | Account                                                                                          | \$    | \$     |
| 6 March | Accounts Payable – Gourmet Garden                                                                | 1375  |        |
|         | Discount Revenue                                                                                 |       | 55     |
|         | Cash at Bank                                                                                     |       | 1320   |
|         | Settlement of account owing to Gourmet Gardening in full allowing for discount of \$55 (Chq 381) |       |        |

Students were awarded one mark for recording the Accounts Payable, one mark for Discount Revenue and Cash at Bank and the third mark for recording the narration.

This question required students to record the payment of the invoice provided.

The calculation of the discount was generally handled well with the most significant error being recording the incorrect source document. Many students recorded the transaction as a cash receipt, while some recorded it as a credit purchase of inventory.

Identifying source documents presented a challenge for some students. Source documents should be regularly revised throughout teaching of Units 3 and 4.

The narration was also done incorrectly by some students, with many missing it completely or not including the source document.

## Question 2a.

| Marks | 0  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Average |
|-------|----|---|---|---|---|---|---|---|---|---|----|----|----|---------|
| %     | 33 | 6 | 4 | 4 | 3 | 2 | 2 | 3 | 3 | 4 | 6  | 9  | 19 | 5.5     |

### Accounts Receivable

|     |                    |           |      |              |           |
|-----|--------------------|-----------|------|--------------|-----------|
| 1/7 | Balance            | 100 000   | 30/6 | Cash at Bank | 1 190 000 |
|     | Sales/GST Clearing | 1 210 000 |      | Balance      | 120 000   |
|     |                    | 1 310 000 |      |              | 1 310 000 |
|     |                    |           |      |              |           |
|     |                    |           |      |              |           |

### Inventory

|     |                  |         |      |               |         |
|-----|------------------|---------|------|---------------|---------|
| 1/7 | Balance          | 180 000 | 30/6 | Cost of Sales | 450 000 |
|     | Accounts Payable | 420 000 |      | Balance       | 150 000 |
|     |                  | 600 000 |      |               | 600 000 |
|     |                  |         |      |               |         |
|     |                  |         |      |               |         |

### Accounts Payable

|     |              |         |      |                        |         |
|-----|--------------|---------|------|------------------------|---------|
| 1/7 | Cash at Bank | 454 000 | 30/6 | Balance                | 70 000  |
|     | Balance      | 78 000  |      | Inventory/GST Clearing | 462 000 |
|     |              | 532 000 |      |                        | 532 000 |
|     |              |         |      |                        |         |
|     |              |         |      |                        |         |

### Capital

|      |          |         |     |                         |         |
|------|----------|---------|-----|-------------------------|---------|
| 30/6 | Drawings | 55 200  | 1/7 | Balance                 | 174 000 |
|      | Balance  | 239 800 |     | Profit and Loss Summary | 121 000 |
|      |          | 295 000 |     |                         | 295 000 |
|      |          |         |     |                         |         |
|      |          |         |     |                         |         |

Students were awarded one mark for each transaction and one mark for correctly balancing each General Ledger account. The question required students to reconstruct General Ledger accounts based on actual data, which was provided in a Balance Sheet, an Income Statement and additional information. When reconstructing accounts students need to ensure that they include dates and correct account cross-references as marks were not awarded for incorrect cross-references.

Common errors included:

- incorrect titles, such as GST instead of GST clearing
- use of abbreviations such as AR and AP
- incorrectly calculating missing amounts such as Bank and Drawings
- not including Balancing totals at the bottom of each account.

## Question 2b.

| Marks | 0  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8  | Average |
|-------|----|---|---|---|---|---|---|---|----|---------|
| %     | 44 | 7 | 5 | 5 | 5 | 6 | 8 | 8 | 12 | 2.8     |

### Radar Medical Supplies

#### Cash Flow Statement for the year ended 30 June 2021

|                                                | \$        | \$          |
|------------------------------------------------|-----------|-------------|
| <b>Cash from Operating Activities</b>          |           |             |
| Accounts Receivable                            | 1 190 000 |             |
| Accounts Payable                               | (454 000) |             |
| GST paid to ATO                                | (65 000)  |             |
| GST paid                                       | (9 200)   |             |
| Advertising paid                               | (35 000)  |             |
| Wages paid                                     | (473 000) |             |
| Vehicle expenses paid                          | (7 000)   |             |
| Interest paid                                  | (3 000)   | (1 046 200) |
| <b>Net Cash from Operating activities</b>      |           | 143 800     |
| <b>Cash from Investing activities</b>          |           |             |
| Purchase of Motor Vehicle                      | (50 000)  |             |
| <b>Net Cash from Investing Activities</b>      |           | (50 000)    |
| <b>Financing Activities</b>                    |           |             |
| Loan repayments                                | (6 000)   |             |
| Drawings                                       | (55 200)  | (61 200)    |
| <b>Net cash flow from financing activities</b> |           |             |
| <b>Net increase/decrease in bank position</b>  |           | 32 600      |
| <b>Opening balance 1 July 2020</b>             |           | 18 000      |
| <b>Closing balance 30 June 2021</b>            |           | 50 600      |

Students were awarded one mark for each of the following:

- accounts receivable and accounts payable
- advertising
- GST Settlement, GST paid, wages, vehicle expenses and interest
- motor vehicle
- loan repayments
- drawings
- net increase to closing balance
- formatting.

There was a wide variety of approaches to this question. The question required students to prepare a Cash Flow Statement for the year ended 30 June 2021 using the same information that was provided for the previous question.

Many students appeared to find the preparation of a complete report a challenge. Many students did not complete the report, with a significant number of students not using the correct formatting for a Cash Flow Statement.

Common errors included:

- incorrectly transferring Accounts Receivable receipts and Accounts Payable payments from the General Ledger
- including an incorrect GST Paid amount despite the actual amount being specified in the question
- not adjusting the advertising expense to include the prepaid advertising to record the cash payment
- missing the purchase of the motor vehicle and the loan repayment. Students should note that the additional information identifies that a cash payment for a motor vehicle and a loan repayment were made. The amounts were easily calculated using the Balance Sheet provided
- incorrect formatting used in the Cash Flow Statement.

## Question 3a.

| Mark | 0  | 1  | 2  | 3  | Average |
|------|----|----|----|----|---------|
| %    | 30 | 13 | 19 | 38 | 1.7     |

### General Journal

| Date     | Details             | Debit | Credit |
|----------|---------------------|-------|--------|
| 2021     |                     |       |        |
| 18 March | Sales Returns       | 90    |        |
|          | GST Clearing        | 9     |        |
|          | Accounts Receivable |       | 99     |
|          |                     |       |        |
|          | Inventory           | 45    |        |
|          | Cost of Sales       |       | 45     |

One mark was awarded for sales/returns and GST clearing. One mark was awarded for Accounts Receivable and one mark for Inventory and Cost of Sales.

This question required students to record a sales return. Students were provided with the original sales invoice, which allowed them to identify the sales price of each textbook.

Students were also provided with an inventory card requiring them to apply the last out, first in approach for sales returns.

There was a range of incorrect responses from students, with many not being able to identify that the source document provided resulted in a sales return.

Common errors included:

- incorrectly identifying the sales return as \$180 by applying the markup
- not recording the Inventory / Cost of Sales entry
- incorrectly recording Sales Returns and GST Clearing as Debit entries.

## Question 3b.

| Mark | 0  | 1  | 2  | 3  | 4  | Average |
|------|----|----|----|----|----|---------|
| %    | 10 | 15 | 29 | 29 | 17 | 2.3     |

Students were presented with a graph that included credit sales and Accounts Receivable turnover for the three months ending 31 March 2021.

They were asked to analyse the information presented and to provide feedback to the owner about the performance of the business.

Providing feedback to the owner required students to consider the information provided as well as the type of information that the business owner would require.

Responses that scored highly included those that went beyond simply repeating the information and referred to:

- February and March coinciding with students returning to school and therefore there being an expected increase in credit sales
- all sales being made on a credit basis
- Accounts Receivable turnover slowing, which could possibly be the result of poor credit check procedures due to a large influx of new customers
- as the business has become busier, they may have focused more on sales than debt collection
- the Accounts Receivable turnover represents the average number of days it has taken to collect cash from Accounts Receivable and therefore we need to review Accounts Receivable to check if it is a small amount paying late that is resulting in the slowing of Accounts Receivable turnover
- the owner needs to consider implementing processes to collect the Accounts Receivable faster as the current scenario could result in poor liquidity and potentially bad debts.

Responses that did not score well focused on the increase in credit sales and slowing Accounts Receivable turnover without providing any feedback to the owner. When providing feedback, students should consider that the owner would be aware of the increased sales and slowing Accounts Receivable turnover but would not necessarily understand the overall implications to the business.

## Question 3c.

| Mark | 0  | 1  | 2  | Average |
|------|----|----|----|---------|
| %    | 20 | 13 | 67 | 1.5     |

The question required students to explain one strategy, other than increasing discount, that the business could use to improve its Accounts Receivable turnover.

One mark was awarded for an appropriate strategy and one mark for the explanation.

The information provided included a constraint that did not allow students to increase the discount.

Strategies to improve Accounts Receivable turnover include:

- reducing discount days to encourage Accounts Receivable to pay faster
- hiring a debt collector
- implementing improved credit check procedures for new customers
- sending reminders (email, letter, phone call, text message).

Strategies such as increasing cash sales and advertising were not accepted answers.

Students should also be aware that the question required one strategy. If multiple strategies were provided, only the first strategy could be considered. Correct reading of the question is important.

## Question 4a.

| Mark | 0  | 1  | 2  | 3  | 4  | Average |
|------|----|----|----|----|----|---------|
| %    | 27 | 20 | 15 | 15 | 23 | 1.9     |

### General Journal

| Date    |                                | Debit | Credit |
|---------|--------------------------------|-------|--------|
| 2021    | Account                        | \$    | \$     |
| 30 June | Allowance for doubtful debts   | 2 500 |        |
|         | GST Clearing                   | 250   |        |
|         | Accounts receivable – R Ramsay |       | 2 750  |
|         |                                |       |        |
|         | Bad Debts                      | 3 100 |        |
|         | Allowance for doubtful debts   |       | 3 100  |

The question required students to write off a bad debt and to adjust the allowance for doubtful debts account to allow for the assumption that 4% of net credit sales would not repay their amount owing. They were provided with an amount of \$2750 that the business has decided to write off.

One mark was awarded for each of the following:

- recording the allowance for doubtful debts and GST Clearing. Students were required to calculate 10% of the amount owing as GST
- recording Accounts Receivable of \$2750
- recording bad debts of \$3100
- allowance for doubtful debts of \$2750, which was calculated as follows:

**Allowance for doubtful debts**

|                 |         |
|-----------------|---------|
| Opening Balance | \$3 000 |
| Less Write off  | \$2 500 |
|                 | \$ 500  |

|                        |         |
|------------------------|---------|
| 4% of Net Credit Sales | \$3 600 |
| Adjustment             | \$3 100 |

Many students were able to complete the write-off entry although the calculation of the adjustment proved challenging.

## Question 4b.

| Mark | 0  | 1  | 2  | Average |
|------|----|----|----|---------|
| %    | 49 | 33 | 17 | 0.7     |

|                                   |         |         |
|-----------------------------------|---------|---------|
|                                   | \$      | \$      |
| <b>Current Assets</b>             |         |         |
| Accounts Receivable               | 107 250 |         |
| Less Allowance for doubtful debts | 3 600   | 103 650 |

One mark was awarded for the adjustment. Many students did not record the write-off adjustment, which appeared to be due to not reading the information in the question thoroughly.

The second mark was provided for recording the new allowance for doubtful debts. Many students reported the adjustment rather than the new balance of the allowance which did not allow them to gain this mark.

This question required the students to adjust the Accounts Receivable for the bad debt that was written off.

## Question 4c.

| Mark | 0  | 1  | 2  | 3  | Average |
|------|----|----|----|----|---------|
| %    | 37 | 28 | 23 | 12 | 1.1     |

One mark was awarded for recognising that the allowance for doubtful debts would be reported as a negative current asset.

Two marks were awarded for explaining why an allowance for doubtful debts is made. Responses that scored highly referred to the business needing to recognise an amount in the accounting reports that is expected not to be collected from Accounts Receivable. They also referred to the allowance recognising the expected loss of economic benefits.

This question required students to classify the allowance for doubtful debts and to explain why an allowance is made for doubtful debts.

Students should ensure they read the question and not assume that the question is the same as in previous examinations. Many students appeared to read the questions as requiring them to justify how the business classified the allowance for doubtful debts.

Many students did not give the full classification and just referred to allowance for doubtful debts as a negative asset. Students must remember that the classification includes current and non-current and can be a positive or negative value.

## Question 5a.

| Marks | 0  | 1  | 2  | 3  | 4  | 5 | 6 | Average |
|-------|----|----|----|----|----|---|---|---------|
| %     | 23 | 16 | 17 | 16 | 14 | 9 | 4 | 2.3     |

The question required students to discuss the accountant's and the owner's statements regarding the liquidity of the business based on a Balance Sheet extract and Financial Indicators.

The information provided allowed for a broad range of acceptable responses.

When discussing the accountant's statement regarding potential liquidity problems that need to be addressed and the owner's statement that the liquidity is satisfactory, students need to use the information provided to show their understanding of the liquidity of the business.

Responses that scored highly referred to the owner being correct as the business is operating with an increasing overdraft and a working capital ratio, which indicates that despite the working capital ratio achieving the budgeted ratio there are not enough current assets to meet current liabilities.

The business is holding more inventory on hand than budgeted and the quick asset ratio indicates that the business would be significantly challenged if they were required to meet their immediate debts as they fall due.

The owner is correct to point out that the working capital ratio is performing as budgeted, however, they may not have the same complex understanding of liquidity as the accountant. The owner is considering a single indicator and has not taken into consideration that while it has met its budget there are not enough current assets to meet current liabilities. The owner needs to consider why the business has increased its bank overdraft and whether the greater accrued wages than budgeted is due to employees working longer hours or due to wages not being able to be paid due to cash flow issues.

## Question 5b.

| Mark | 0  | 1  | 2  | Average |
|------|----|----|----|---------|
| %    | 35 | 26 | 39 | 1.1     |

Monthly budgeting allows management to quickly address adverse variances and trends (i.e. providing greater control) and to revise future months' budgets and reset if necessary. This improves planning procedures and provides realistic targets for staff and management. If the budget period is too long then adverse trends may not be detected until significant financial damage has been incurred; too short and there is not enough time to reset plans and this may lead to reacting to minor variances.

Students were awarded one mark for identifying a benefit of monthly budgeting and one mark for explaining the benefit.

This question caused issues for many students who were not able to explain the benefit that they identified.

## Question 6a.

| Mark | 0  | 1 | 2  | 3  | 4  | Average |
|------|----|---|----|----|----|---------|
| %    | 13 | 5 | 10 | 12 | 59 | 3.0     |

One mark was awarded for each amount. Students were provided with emails between Ocean Cuttlefish and their accountant. Students were able to use the emails and the information provided in the question to calculate the depreciation and the carrying value of the refrigeration equipment.

The reducing balance depreciation was calculated by multiplying the cost price of the refrigeration equipment of \$540 000 by 20%. This provided depreciation of \$108 000, which when subtracted from the cost price gave a carrying value of \$432 000.

The straight-line depreciation was calculated by multiplying the cost price less the residual value of the refrigeration equipment (\$540 000-\$120 000) divided by 15 years. This provided depreciation of \$28 000, which when subtracted from the cost price gave a carrying value of \$512 000.

| Method                  | Depreciation Year ending 30 June 2021 | Carrying value as at 30 June 2021 |
|-------------------------|---------------------------------------|-----------------------------------|
| Reducing Balance Method | 108 000                               | 432 000                           |
| Straight-Line Method    | 28 000                                | 512 000                           |

## Question 6b.

| Mark | 0  | 1  | 2  | 3  | Average |
|------|----|----|----|----|---------|
| %    | 42 | 17 | 20 | 21 | 1.2     |

One mark was awarded for the impact on the Income Statement and two marks for the impact on the Balance Sheet.

If the straight-line method is used, the depreciation expense would be \$80 000 lower than if the reducing balance method was used, which would result in net profit being \$80 000 higher.

The effect on the Balance Sheet would be that non-current assets would be \$80 000 higher, as accumulated depreciation would be \$80 000 lower.

Owner's equity would be \$80 000 higher due to the higher net profit.

To be awarded full marks, students were then required to provide a detailed response about the effect on each individual element when asked for the effect on accounting reports.

## Question 6c.

| Marks | 0  | 1  | 2  | 3  | 4  | 5 | Average |
|-------|----|----|----|----|----|---|---------|
| %     | 22 | 17 | 19 | 19 | 14 | 8 | 2.1     |

Students were required to discuss any ethical and accounting issues that the accountant should consider when determining the depreciation method, the estimates of useful life and the residual value for the equipment.

Students need to be careful not to simply provide the rote-learned response that businesses choose a depreciation method based on the revenue earning pattern.

While responses that scored highly referred to the revenue earning pattern, they provided an in-depth discussion around the decision by the owner to inflate the profit of the business by choosing the straight-line depreciation method, which would result in less depreciation and therefore greater net profit and non-current assets.

The choice of method, while in this scenario resulting in a higher profit, is just one factor. The owner of the business has also provided a residual value and useful life that will significantly increase the net profit. There are ethical implications around the owner's decision to potentially inflate profit in order to increase the valuation of the business for potential buyers.

These students also referred to the conflict that arises between the expertise of the accountant and the business owner. While the accountant would have a standard useful life and residual value, the owner may have a better understanding of how long the refrigeration equipment will be used by the business and how much they have been able to sell the equipment for in the past.

## Question 7a.

| Mark | 0  | 1  | 2  | 3  | 4  | Average |
|------|----|----|----|----|----|---------|
| %    | 27 | 22 | 21 | 17 | 14 | 1.7     |

This question provided an Income Statement and additional information that could be used to support the students' responses. Students were required to explain what the accountant meant by saying that cash and profit are not the same under accrual accounting and therefore students were required to explain that cash and profit are different concepts. Cash includes receipts and payments from all sources, not just revenues and expenses. Profit under the accrual method recognises revenues earned (whether cash has been received or not) and expenses incurred (whether cash is paid or not).

Some items are not included. There were many opportunities to use the additional information provided, such as:

- cost of sales not being the same as the amounts paid for the purchase of inventory
- rent paid may not be the same as rent consumed.

Some students did not take into account that this question was out of four marks and gave simplistic responses.

## Question 7b.

| Marks | 0  | 1 | 2 | 3  | 4  | 5  | 6  | 7  | 8  | Average |
|-------|----|---|---|----|----|----|----|----|----|---------|
| %     | 11 | 4 | 8 | 13 | 14 | 14 | 13 | 14 | 11 | 4.4     |

### Extreme Toys

#### Income Statement for the month ended 31 October 2021

|                               | \$    | \$            |
|-------------------------------|-------|---------------|
| <b>Revenue</b>                |       |               |
| Sales                         |       | 54 000        |
| Less Cost of Sales            |       | 27 000        |
| <b>Gross Profit</b>           |       | <b>27 000</b> |
| Less Inventory writedown      |       | 500           |
| <b>Adjusted Gross Profit</b>  |       | <b>26 500</b> |
| <b>Add Other Revenue</b>      |       |               |
| add Profit on disposal of van |       | 600           |
|                               |       | 27 100        |
| Less other expenses           |       |               |
| Wages                         | 9 000 |               |
| Advertising                   | 2 000 |               |
| Rent                          | 3 400 |               |
| Office Expenses               | 1 000 |               |
|                               |       |               |
|                               |       | 15 400        |
| <b>Net Profit</b>             |       | <b>11 700</b> |

Students were awarded a mark for each of the following:

- Sales
- Cost of Sales and Gross Profit
- Inventory Loss/Write-down and Adjusted Gross Profit
- Profit on disposal of van and sub-total
- Wages
- Advertising
- Rent and Office Expenses
- formatting – headings, net profit with a number.

Students were provided with an Income Statement in the question and were required to adjust the report according to the additional information provided.

Common errors included:

- not adjusting the sales for the unearned revenue
- not including the \$27 100 after Other Revenue
- not adjusting the Cost of Sales to maintain the 100% markup
- not recording the inventory writedown
- recording the profit on disposal of delivery van with an incorrect title, such as 'trade in'
- not adjusting the advertising for the prepaid advertising.

## Question 7c.

| Mark | 0  | 1  | 2  | Average |
|------|----|----|----|---------|
| %    | 27 | 29 | 44 | 1.2     |

### General Journal

| Date  |               | Debit | Credit |
|-------|---------------|-------|--------|
| 2021  | Account       | \$    | \$     |
| Nov 3 | Wages         | 1 600 |        |
|       | Accrued Wages | 1 000 |        |
|       | Cash at Bank  |       | 2 600  |

One mark was awarded for Wages and Accrued Wages and one mark for Cash at Bank.

The cash at bank of \$2600 was specified in the question. Many students however did not recognise this.

Another common error was recording a debit of \$1000 to Wages and \$1600 to Accrued Wages which did not receive marks.

## Question 7d.

| Mark | 0  | 1  | 2  | 3  | 4  | Average |
|------|----|----|----|----|----|---------|
| %    | 36 | 15 | 13 | 14 | 21 | 1.7     |

### General Journal

| Date   | Account                | Debit | Credit |
|--------|------------------------|-------|--------|
| 2021   |                        |       |        |
| Nov 11 | Unearned Sales Revenue | 2 000 |        |
|        | Cash at Bank           | 2 950 |        |
|        | Sales revenue          |       | 4 500  |
|        | GST Clearing           |       | 450    |
|        | Cost of Sales          | 2 250 |        |
|        | Inventory              |       | 2 250  |
|        |                        |       |        |

One mark was awarded for each of the following:

- debiting the Unearned Sales Revenue account by \$2000 to recognise the deposit that was applied to the sale
- debiting the \$2950 to the bank account for the addition received from the sale
- crediting the Sales revenue and GST Clearing, which was provided in the question
- recording the Cost of Sales / Inventory, which was calculated based on the 100% markup provided in the question.

Common errors included:

- not recording the adjustment for Unearned Sales Revenue
- not including Sales in the title for Unearned Sales Revenue
- incorrectly calculating the markup
- not recording the transfer of Inventory to Cost of Sales.

## Question 8

| Marks | 0  | 1  | 2  | 3  | 4  | 5  | 6 | Average |
|-------|----|----|----|----|----|----|---|---------|
| %     | 22 | 13 | 18 | 16 | 14 | 10 | 6 | 2.4     |

Students were presented with financial indicators and two options that the owner is considering for the future of their business operations.

The first option involved the business expanding inventory lines by redeveloping the kitchen area and employing an extra staff member to assist in the kitchen and with deliveries.

There was a variety of responses relating to the owner's considerations.

Responses that scored highly referred to the expansion of the inventory lines having a negative short-term effect as the business reduced its operating capacity during the development. This could result in a reduction in sales, which could result in a decrease in the net profit margin. The increased capital contribution could result in a decrease in the return on investment unless there is a greater increase in the net profit margin to offset the increased capital.

Students also referred to the impact on the quick asset ratio being minimal as the increase in cash would be used to purchase inventory. While this could improve working capital ratio, it will have no effect on the quick asset ratio.

Some students referred to gross profit margin increasing, although this is unlikely unless the new inventory could be sold with a higher markup than the current inventory.

The second option involved the owner contributing \$150 000 to reduce the bank loan of the business.

Responses that scored highly referred to the decrease in the debt ratio. The reduction in the loan would also result in a decrease in interest, which could increase the net profit of the business and potentially the net profit margin. While there is an increase in net profit it is likely that there will be a decrease in the return on owner's investment as the owner's capital will increase.

There would be no impact on the gross profit margin based on the capital contribution to repay the debt.