



# **VCE ACCOUNTING UNIT 3 / 4**

## **2022**

### **CPAP Practice Examination No.1**

### **SUGGESTED SOLUTIONS, MARKING SCHEME AND ADVICE**

### Question 1 – Tracka (10 marks)

a. Record the additional information in the Inventory Card provided.

7 marks

**Advice:** VCAA exams have regularly included inventory cards. Each transaction usually tests a different skill. Students should ensure that they are aware of the type of entry that results from each different source document and that the cost of inventory includes all costs that can be logically allocated to the cost of getting inventory into condition and location ready for sale. This type of question can easily be changed by using identified cost rather than FIFO so it is important that the cost assignment method is identified before commencing this type of question. This type of question appeared on the 2019 exam with 63% of students achieving full marks with many students using the incorrect cost price for the inventory gain.

#### Inventory Card

| Item: Supa Tracker<br>Supplier: Watch It |            | Cost Assignment method: FIFO |           |       |     |           |       |         |           |       |
|------------------------------------------|------------|------------------------------|-----------|-------|-----|-----------|-------|---------|-----------|-------|
| Date                                     | Details    | IN                           |           |       | OUT |           |       | BALANCE |           |       |
|                                          |            | Qty                          | Unit Cost | Value | Qty | Unit Cost | Value | Qty     | Unit Cost | Value |
| Jul. 1                                   | Balance    |                              |           |       |     |           |       | 3       | 210       | 630   |
| 5                                        | Inv 14     | 8                            | 220       | 1 760 |     |           |       | 3       | 210       | 630   |
|                                          |            |                              |           |       |     |           |       | 8       | 220       | 1 760 |
| 7                                        | Inv 45     |                              |           |       | 3   | 210       | 630   |         |           |       |
|                                          |            |                              |           |       | 1   | 220       | 220   | 7       | 220       | 1 540 |
| 12                                       | Cr Note 45 | 1                            | 220       | 220   |     |           |       | 1       | 210       | 210   |
|                                          |            | 1                            | 210       | 210   |     |           |       | 8       | 220       | 1 760 |
| 14                                       | Cr Note 49 |                              |           |       | 1   | 220       | 220   |         |           |       |
|                                          |            |                              |           |       | 1   | 210       | 210   | 7       | 220       | 1 540 |
| 21                                       | Inv 22     | 4                            | 250       | 1 000 |     |           |       | 7       | 220       | 1 540 |
|                                          |            |                              |           |       |     |           |       | 4       | 250       | 1 000 |
| 22                                       | EFT 19     | 4                            | 10        | 40    |     |           |       | 7       | 220       | 1 540 |
|                                          |            |                              |           |       |     |           |       | 4       | 260       | 1 040 |
| 31                                       | Memo 9     |                              |           |       | 1   | 220       | 220   | 6       | 220       | 1 320 |
|                                          |            |                              |           |       |     |           |       | 4       | 260       | 1 040 |

- 1 mark for each transaction

**b. Explain the impact on the accounting reports of the transaction on 31 July 2022****3 marks**

**Advice:** The Accounting Study Design requires students to analyse the effect of financial transactions on the accounting reports. Students should be aware that they are required to refer to all accounting reports even if there is no effect on an individual report. Better responses to these questions will provide detail of the individual accounts that have been impacted by the transaction rather than just the overall impact on the accounting element. The 2020 VCAA exam included a question that required students to explain the impact on accounting reports with 52% of students unable to achieve a mark. Only 16% of students were able to provide sufficient detail of each transaction to attain full marks, with many students unable to clearly describe the effect on both sides of the Balance Sheet,

- 1 mark for impact on Balance Sheet
- 1 mark for impact on Income Statement
- 1 mark for no impact on Cash Flow Statement

**Sample Answer:** *The transaction on 31 July 2022 is an inventory loss. There will be a reduction of \$220 of assets in the Balance Sheet due to inventory decreasing by \$220. The inventory loss will have no impact on liabilities and will reduce net profit and therefore owners' equity by \$220. The inventory loss will result in a decrease of \$220 of net profit in the Income Statement due to the increased other expenses. There will be no effect on the Cash Flow Statement.*

## Question 2 – Shiny Cleaning Supplies (7 marks)

a. Complete the Allowance for Doubtful Debts General Ledger account at 28 February 2022

1 mark

### General Ledger

#### Allowance for Doubtful Debts

| Date<br>2022 | Cross-reference     | Amount | Date<br>2022 | Cross-reference | Amount |
|--------------|---------------------|--------|--------------|-----------------|--------|
| 18/2         | Accounts Receivable | 3 000  | 1/2          | Balance         | 4 100  |
| 28/2         | Balance             | 2 200  | 28/2         | Bad Debts       | 1 100  |
|              |                     |        |              |                 |        |
|              |                     |        |              |                 |        |

- 1 mark for Bad Debts \$1 100

b. Explain the effect on the accounting equation of the transaction on 18 February 2022.

3 marks

**Advice:** Students should expect questions to use similar style of information that they have seen previously while requiring a different skill to previous questions. This question requires students to use the information from a General Ledger entry to understand the General journal entry that was required to create that entry. The question combines the skill of identifying an entry with the Study Design skill that requires students to analyse the effect of a transaction on the accounting equation.

- 1 mark for impact on assets
- 1 mark for impact on liabilities
- 1 mark for no effect on owners' equity

**Sample Answer:** Assets will decrease by \$300 as accounts receivable will decrease by \$3 300 and allowance for doubtful debts will decrease by \$3 000. Liabilities will decrease by \$300 as GST Clearing will decrease by \$300. There will be no effect on owners' equity.

c. Show the extract of the current assets section of the Balance Sheet on 28 February 2022 relevant to Accounts Receivable.

3 marks

**Advice:** Allowance for Doubtful Debts questions have appeared on all VCE Accounting exams since the implementation of the latest Study Design. Attention to detail is important in VCAA Accounting exams. While this question appears to be straightforward students should ensure that they include the title and use the information from the correct part of the General Ledger. The 2020 VCAA exam required students to show the current assets section of the Balance Sheet relating to the allowance for doubtful debts and accounts receivable. Only 17% of students were able to receive full marks with many missing the adjustment required for the allowance for doubtful debts. This indicates that students should carefully revise this area of the course when preparing for the examination.

| Current Assets                    | \$     | \$     |
|-----------------------------------|--------|--------|
| Accounts Receivable               | 25 000 |        |
| Less Allowance for Doubtful Debts | 2 200  | 22 800 |

- 1 mark for current assets and total
- 1 mark for accounts receivable \$25 000
- 1 mark for Less Allowance for Doubtful Debts \$2 200

### Question 3 - Harry's Heaters (6 marks)

- a. Referring to an qualitative characteristic, explain why the owner would use graphs to show the information provided.

**3 marks**

**Advice:** Qualitative characteristics have appeared regularly in VCAA Accounting exams. While they are generally tested as part of discussion style questions there is usually a question that requires application of knowledge to a specific qualitative characteristic. Students should be aware that each qualitative characteristic will have a certain purpose. Understandability is the best option for any questions where classification of reports and graphs are used.

- 1 mark for allows financial information to be comprehensible to users with reasonable knowledge of business and economic activities
- 1 mark for understandability requires information to be presented clearly and concisely
- 1 mark for the graphs present the information in a more comprehensible manner.

**Sample Answer:** Harry's Heaters would use graphs to show the information as it allows financial information to be comprehensible to users with reasonable knowledge of business and economic activities. Understandability requires information to be presented clearly and concisely. The graphs present the information in a more comprehensible manner.

- b. Outline the relationship between the Return on Investment and Net Profit for Harry's Heaters. **3 marks**

**Advice:** The relationships between financial indicators are common questions in VCAA Accounting exams. While students will not be required to calculate indicators, they will be required to know how the calculations work. This can appear confusing as the skill of calculating the net profit margin and return on investment is one that is required in order to analyse the information. Students should be looking for unusual patterns such as an increase in net profit margin while net profit is declining and to consider how debt impacts on these indicators. The 2020 VCAA exam required students to use information provided in graphs to analyse the effect of the return on investment and debt ratio. Better performing students were able to use the information to explain the relationships between the indicators although only 3% were able to achieve full marks, while 32% of students scored zero. Careful attention to this part of the course is recommended and, in particular, students would benefit from spending some time analysing the impact of the relationships between indicators when preparing for their exam.

- 1 mark for declining net profit
- 1 mark for improving net profit margin
- 1 mark for constant level of assets indicating liabilities replacing equity

**Sample Answer:** Harry's Heaters has experienced a declining net profit while managing an increase in return on investment. When a business has an improving return on investment with a declining profit this would indicate that the business has had a reduction in owners' equity. As Harry's Hardware has maintained a constant level of assets, the decrease in owners' equity would indicate that the equity has been replaced with debt (i.e. increased liabilities) and therefore the improvement in the net profit margin was not due to improved net profit.

**Question 4 – Cooked Kitchen (6 marks)****a. Calculate the cash paid for rent for the period ended 31 December 2022.****2 marks**

**Advice:** Cash versus profit questions can be presented as theory or practical style questions. When you have a practical question, you should use a timeline such as the one provided in the solution. This type of question has been used in previous VCAA exams and the use of a timeline can be a good time saver for students as they can give you confidence in your answer in an efficient manner.

Rent Paid on 28<sup>th</sup> of the month for the following month

| July  | August | September | October | November | December |
|-------|--------|-----------|---------|----------|----------|
| 1 000 | 1 000  | 1 100     | 1 100   | 1 100    | 1 100    |

**Total Paid = \$6 400**

- 1 mark for July and August
- 1 mark for September, October, November and December

**b. Calculate the Rent Expense for the year ended 31 December 2022.****2 marks**

Rent Expense

|  | August | September | October | November | December |
|--|--------|-----------|---------|----------|----------|
|  | 1 000  | 1 000     | 1 100   | 1 100    | 1 100    |

**Total Paid = \$5 300**

- 1 mark for August and September
- 1 mark for October, November and December

**c. Referring to an accounting assumption, explain why the Rent Expense for the period is not the same as the amount paid for rent.**

**2 marks**

**Advice:** Cash versus profit theory questions require students to have an understanding of accrual accounting. They are common questions in VCAA exams and the best response is one where the structure of the response is based on the definition of the accounting assumption. These questions will usually require students to mention that net profit is determined by subtracting expenses incurred from revenue earned while net cash is determined by subtracting cash paid from cash received. Despite cash versus profit appearing regularly on exams, students appear to be unprepared for them. The 2021 exam required students to compare information in an Income Statement to a Cash Flow Statement with many students not able to identify that net profit is determined by revenue earned less expenses incurred while net cash is calculated by cash received less cash paid. Only 14% of students were able to achieve full marks while 49% of students scored 1 mark or less out of 4. Once again, greater attention to this part of the course is recommended in order to perform well on similar questions in the examination.

- 1 mark for accrual basis assumption
- 1 mark for rent expense recognised when they are incurred in order to calculate an accurate net profit and rent paid recognised when it is paid

**Sample Answer:** The accrual basis assumption requires the business to recognise expenses when it is incurred in order to calculate net profit while rent paid is recognised in the period it is actually paid. The rent paid is different to the

expense as the increase in rent expense is paid a month in advance (or, there was no rent incurred for the month of July while the August expense was paid in July).

### Question 5 – Splash Bath’s (13 marks)

a. Show how the following accounts would appear in the General Ledger after recording the information provided above.

- Equipment
- Accumulated Depreciation of Equipment
- Disposal of Equipment

**9 marks**

**Advice:** This type of question has appeared on previous VCAA Accounting exams and presented a significant challenge for students. Disposal of non-current asset questions can be presented in a wide variety of ways and students often find them difficult when the information is presented in a different format than they have seen previously. The disposal of non-current asset account is only used for specific entries relating to the sale or trade in of non-current assets and students find that while they can record the General Journal entries into the General Ledger account, it is difficult when they are required to do then reverse. This question is similar to one that appeared in the 2016 VCAA exam and has been updated for the most current VCAA Accounting Study Design. The question was difficult for students as rather than requiring students to rely on their memory of the transactions, they were required to apply their knowledge. The question required students to move back and forth from each of the General Ledger accounts rather than working from the first to the last. 40% of students scored zero for this question while on 7% achieved full marks, highlighting the need to carefully revise this area of the course.

#### Equipment

| Date<br>2022 | Cross-reference       | Amount | Date<br>2022 | Cross-reference       | Amount |
|--------------|-----------------------|--------|--------------|-----------------------|--------|
| 1/7          | Balance               | 40 000 | 1/7          | Disposal of Equipment | 20 000 |
| 1/7          | Disposal of Equipment | 19 000 |              |                       |        |
| 1/7          | Bank                  | 26 000 |              |                       |        |
|              |                       |        |              |                       |        |

#### Accumulated Depreciation of Equipment

| Date<br>2022 | Cross-reference       | Amount | Date<br>2022 | Cross-reference | Amount |
|--------------|-----------------------|--------|--------------|-----------------|--------|
| 1/7          | Disposal of Equipment | 15 000 | 1/7          | Balance         | 20 000 |
|              |                       |        |              |                 |        |

#### Disposal of Equipment

| Date<br>2022 | Cross-reference                 | Amount | Date<br>2022 | Cross-reference                       | Amount |
|--------------|---------------------------------|--------|--------------|---------------------------------------|--------|
| 1/7          | Equipment                       | 20 000 | 1/7          | Accumulated Depreciation of Equipment | 15 000 |
| 1/7          | Profit on Disposal of Equipment | 14 000 | 1/7          | Equipment                             | 19 000 |
|              |                                 |        |              |                                       |        |

- 1 mark for each entry
- 1 mark for both balances

b. Explain how a business can incur a profit on disposal of a non-current asset.

2 marks

- 1 mark for over depreciated
- 1 mark for understate residual value or useful life

**Sample Answer:** A profit on disposal occurs when the non-current asset has been over depreciated. Over depreciation occurs when the residual value or the useful life of the non-current asset has been understated.

c. Explain how the inventory would be reported in the Balance Sheet as at 30 June 2022.

2 marks

**Advice:** This type of question is common on VCAA Accounting exams. Students should become accustomed to being able to identify the element which each account can be allocated to in practical questions, although they struggle to use the definition required to support their allocation.

- 1 mark for current asset which is a present economic resource controlled by the entity as a result of past events
- 1 mark for held primarily for the purpose of sale or trading and will be sold by Splash Bath's within 12 months after the end of the reporting period.

**Sample Answer:** Inventory would be reported as a current asset as it is a present economic resource controlled by the entity as a result of past events. Inventory has the potential to produce future economic benefits. Inventory is held primarily for the purpose of sale or trading and will be sold by Splash Bath's within 12 months after the end of the reporting period.

#### Question 6 – Perfect Pitch (26 marks)

a. Reconstruct the following General Ledger Accounts:

12 marks

**Advice:** Budgeting questions require students to reconstruct accounts based on the assumptions made for a future period. This question tests a wide range of skills. A detailed knowledge of the transactions that are included in each of the accounts provided is required. Many students can post General Journal entries to General ledger accounts, although it can be a challenge to reconstruct accounts from information provided. Important details to be aware of in this question are that the question requires specific accounts such as the amount received from accounts receivable and therefore, they can't combine bank and discount expense in a single entry. Reconstruction questions have appeared on most VCAA Accounting exams with the changes to the current Study Design allowing them to be asked throughout the course, rather than only with budgeting questions. A similar question appeared on the 2014 VCAA exam with 21% of students scoring zero and 12% of students achieving full marks, indicating that students should carefully revise this area of the course.

#### Accounts Receivable

| Date<br>2022 | Cross-reference    | Amount  | Date<br>2022 | Cross-reference            | Amount         |
|--------------|--------------------|---------|--------------|----------------------------|----------------|
| 1/8          | Balance            | 27 200  | 31/8         | Discount Expense           | 400            |
| 31/8         | Sales/GST Clearing | 198 000 |              | <b>Bank</b>                | <b>195 450</b> |
|              |                    |         |              | Sales Returns/GST Clearing | 1 100          |
|              |                    |         |              | Balance                    | 28 250         |
|              |                    | 225 200 |              |                            | 225 200        |
| 1/9          | Balance            | 28 250  |              |                            |                |

## Inventory

| Date<br>2022 | Cross-reference         | Amount        | Date<br>2022 | Cross-reference  | Amount  |
|--------------|-------------------------|---------------|--------------|------------------|---------|
| 1/8          | Balance                 | 45 000        | 31/8         | Cost of Sales    | 90 000  |
| 31/8         | Cost of Sales           | 500           |              | Accounts Payable | 500     |
|              | <b>Accounts Payable</b> | <b>75 000</b> |              | Drawings         | 2 000   |
|              |                         |               |              | Balance          | 28 000  |
|              |                         | 120 500       |              |                  | 120 500 |
| 1/9          | Balance                 | 28 000        |              |                  |         |

## Accounts Payable

| Date<br>2022 | Cross-reference        | Amount        | Date<br>2022 | Cross-reference        | Amount |
|--------------|------------------------|---------------|--------------|------------------------|--------|
| 31/8         | <b>Bank</b>            | <b>82 730</b> | 1/8          | Balance                | 4 000  |
|              | Discount Revenue       | 220           | 31/8         | Inventory/GST Clearing | 82 500 |
|              | Inventory/GST Clearing | 550           |              |                        |        |
|              | Balance                | 3 000         |              |                        |        |
|              |                        | 86 500        |              |                        | 86 500 |
|              |                        |               | 1/9          | Balance                | 3 000  |

- 1 mark for balances in Accounts Receivable
- 1 mark for Sales/GST Clearing \$198 000
- 1 mark for Bank \$195 450
- 1 mark for Discount Expense \$400 and Sales Returns/GST Clearing \$1 100
- 1 mark for balances in Inventory
- 1 mark for both Cost of Sales entries \$500 and \$90 000
- 1 mark for Account Payable \$500 and Drawings \$2 000
- 1 mark for Accounts Payable \$75 000
- 1 mark for balances in Accounts Payable
- 1 mark for Discount Revenue \$300 and Inventory/GST Clearing \$550
- 1 mark for Bank \$82 730
- 1 mark for Inventory/GST Clearing \$82 500

**b. Prepare a Budgeted Cash Flow Statement for the month ending 31 August 2022.**

**12 marks**

**Advice:** VCAA Accounting exams include the completion of accounting reports. This question required students to complete a full Cash Flow Statement, although students could be asked to prepare an extract of a report in a VCAA Accounting exam. The marking grid provided indicates the complexity of the response required by students. Drawings appears straight forward although students should use the additional information to ensure that they only include cash drawings and therefore an entire mark has been allocated to this account. The Cash Flow Statement is a complex report and students will usually receive a blank report that requires them to know all of the titles that appear in the report. The 2014 VCAA exam required students to prepare a Cash Flow Statement from budgeted information with 52% of students scoring zero and only 7% of students achieving full marks. Students made a variety of errors including reporting Credit Sales rather than collections from accounts receivable, including non-cash entries such as discounts, omitting prepaid expenses and preparing an Income Statement rather than a Cash Flow Statement.

**Note 1:** All purchases of non-current assets are made on a cash basis as per the VCAA Accounting Study Design.

**Note 2:** The GST collected of \$2 200 is from the disposal of the van for \$22 000 (plus GST) and the GST paid is calculated as follows: \$1 400 (Prepaid Rent) + \$3 000 (Purchase of van) + \$400 (Delivery In) + \$200 Delivery Out).

**Perfect Pitch**  
**Budgeted Cash Flow Statement for the month ending 31 August 2022**

|                                                 | \$       | \$        |   |
|-------------------------------------------------|----------|-----------|---|
| <b>Cash Flows from Operating Activities</b>     |          |           |   |
| Accounts Receivable                             | 195 450  |           |   |
| Interest revenue                                | 450      |           | 1 |
| GST Collected                                   | 2 200    | 198 100   | 1 |
| Prepaid Rent                                    | (14 000) |           |   |
| Wages                                           | (59 000) |           | 1 |
| Delivery In                                     | (4 000)  |           | 1 |
| Delivery Out                                    | (2 000)  |           |   |
| Interest Expense                                | (2 100)  |           |   |
| Accounts Payable                                | (82 730) |           | 1 |
| GST Paid to ATO                                 | (2 000)  |           |   |
| GST Paid                                        | (5 000)  | (170 830) | 1 |
| <b>Net Cash Flows from Operations</b>           |          | 27 270    |   |
| <b>Cash Flows from Investing Activities</b>     |          |           |   |
| Sale of Van                                     | 22 000   |           | 1 |
| Purchase of Van                                 | (30 000) |           | 1 |
| <b>Net Cash Flows from Investing Activities</b> |          | (8 000)   |   |
| <b>Cash Flows from Financing Activities</b>     |          |           |   |
| Drawings                                        | (10 000) |           | 1 |
| Loan repayments                                 | (500)    |           | 1 |
| <b>Net Cash Flows from Financing Activities</b> |          | (10 500)  |   |
| <b>Net Cash Surplus</b>                         |          | 8 770     |   |
| <b>Balance as at 1 August 2022</b>              |          | 22 750    |   |
| <b>Balance as at 31 August 2022</b>             |          | 31 520    | 1 |

- 1 mark for format of report

c. Explain why the owner would prepare a monthly budgeted Cash Flow Statement.

2 marks

- 1 mark for identify issues
- 1 mark for take corrective action immediately

**Sample Answer:** The owner would prepare a monthly budgeted cash flow statement as it allows them to identify and issues and to take corrective action immediately. It also allows them to remove the effect of seasonality in the performance of the business.

**Question 7 – Surf’s Up (21 marks)****a. Record the General Journal entries required on 30 June 2022****12 marks**

**Advice:** Balance Day Adjustments and correcting entries require students to take a methodical approach to their exam. Each question will potentially impact future transactions and therefore they need to ensure that if they make an adjustment to inventory that this could impact their inventory gain later in the question. With this type of question it is important that students tick off each point in the question book after they record every transaction. This question is similar to a question on the 2017 VCAA exam where 13% of students scored zero marks and only 6% of students achieved full marks. Students provided a variety of responses including reversing entries and omitting entries or incorrectly calculating depreciation, suggesting that students were unprepared for this type of question, one which could easily resurface on the 2022 examination.

**General Journal**

| <i>Date</i> | <i>Details</i>                                   | <i>Debit</i> | <i>Credit</i> |   |
|-------------|--------------------------------------------------|--------------|---------------|---|
| 30/6        | Depreciation – Fixtures and Fittings             | 6 000        |               | 2 |
|             | Accumulated Depreciation - Fixtures and Fittings |              | 6 000         |   |
|             |                                                  |              |               |   |
| 30/6        | Advertising expense                              | 1 000        |               | 2 |
|             | Prepaid Advertising Expense                      |              | 1 000         |   |
|             |                                                  |              |               |   |
| 30/6        | Wages Expense                                    | 1 500        |               | 1 |
|             | Accrued Wages Expense                            |              | 1 500         |   |
|             |                                                  |              |               |   |
| 30/6        | Rent Expense                                     | 9 000        |               | 2 |
|             | Prepaid Rent Expense                             |              | 9 000         |   |
|             |                                                  |              |               |   |
| 30/6        | Bank                                             | 13 200       |               | 2 |
|             | Drawings                                         |              | 6 600         |   |
|             | Sales                                            |              | 6 000         |   |
|             | GST Clearing                                     |              | 600           |   |
|             | Cost of Sales                                    | 1 500        |               |   |
|             | Inventory                                        |              | 1 500         |   |
|             |                                                  |              |               |   |
| 30/6        | Inventory Write-down                             | 2 500        |               | 2 |
|             | Inventory                                        |              | 2 500         |   |
|             |                                                  |              |               |   |
| 30/6        | Inventory                                        | 3 000        |               | 1 |
|             | Inventory Gain                                   |              | 3 000         |   |

- b. Referring to an accounting assumption, explain why prepayments would be reported in the Balance Sheet of Surfs Up as at 30 June 2022. 2 marks

- 1 mark for Going Concern assumption
- 1 mark for the business will continue indefinitely into the future

**Advice:** Accounting assumptions are commonly tested in VCAA Accounting exams. Students should be aware that they need to consider all accounting assumptions and not just the assumptions that they have been used to using previously.

**Sample Answer:** *The going concern accounting assumption allows for prepayments to be reported in the Balance Sheet based on the assumption that the business will continue to operate into the future. Therefore the prepayment can be reported as a current asset.*

- c. Outline two reasons why the net realisable value of the inventory held by Surf's Up may have fallen below its cost,. 2 marks

- 1 mark for Surf's Up sells the latest in surf fashion
- 1 mark for the inventory may have been damaged and needing to be sold at a cheaper price.

**Sample Answer:** *Surf's Up sells the latest in surf fashion and therefore there is a risk that the selling price and net realisable value of its inventory could fall below the cost price of the inventory. In addition, the inventory may have been damaged and needs to be sold below the cost price.*

**d. Referring to accounting assumptions and qualitative characteristics, discuss the accountants comment.****5 marks**

**Advice:** Discuss questions appear on all VCAA Accounting exams and require students to present both sides of a discussion. When answering discuss questions, students should consider the marking grid provided and ensure that they support their discussion with the language that they have used throughout the course. Students should ensure that they are not simply explaining their response and are providing a discussion. The 2021 VCAA exam required students to discuss issues around the choice of depreciation method. Only 8% of students were able to achieve full marks for the discussion question with many students providing rote learned responses. Higher scoring responses referred to the revenue earning pattern and provided an in-depth discussion of the decision made by the owner. The 2020 VCAA exam included two discussion questions and students should ensure they are well prepared for discuss questions.

|     |                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5   | <p>Detailed understanding of decisions that the accountant must consider when determining the depreciation method used by the business</p> <p>Comprehensive discussion of the choice of depreciation methods made by a business owner which was suggested by the accountant</p> <p>Accurate use of correct accounting terminology and discussion of the implications on the impact on the reports of the business</p> |
| 3-4 | <p>Demonstrated an understanding of the choice of depreciation methods made by a business owner</p> <p>Referred to both positive and negative implications of the suggestion by the accountant</p> <p>General use of correct accounting terminology and reference to the implications on the impact on the performance of the business</p>                                                                            |
| 1-2 | <p>Basic, if any reference to depreciation methods</p> <p>General use of correct accounting terminology and reference to the implications on the impact of the of depreciation methods for a business</p>                                                                                                                                                                                                             |
| 0   | Displays no knowledge of depreciation methods                                                                                                                                                                                                                                                                                                                                                                         |

**Sample Answer:** When selecting the correct depreciation method to allocate the cost of the fixtures and fittings over their useful life the accountant is considering their revenue earning pattern in order to calculate an accurate net profit. The accrual basis assumption and period assumption requires the business to match the expenses incurred to the revenue earned from the fixtures and fittings in each reporting period over its useful life. While the method that is currently being used is not necessarily the most appropriate method to be used there are issues around changing methods. The change would potentially improve decision making and will more faithfully represent the real world economic event that has occurred in the business. It could be a breach of comparability as changing methods may result in users of the reports not being able to compare information with another period.

### Question 8 – Sip It (12 marks)

a. Complete the tables provided to determine the gross profit earned from each of the options. **6 marks**

**Advice:** Modelling questions and ethical considerations were introduced into the current VCAA Accounting Study design and require students to use information provided to make decisions about a business. This question provided a variety of issues for a business around the purchase of coffee beans and would replicate the sort of decisions that café owners make on a regular basis. Students should be prepared for this style of question and it will benefit students who develop more than a rote learned response to questions. The 2019 exam included a similar question to the one provided below with students being required to model the profit of different options for a business. The key to achieving high marks on this type of questions is to consider all possibilities and to think beyond the obvious response. Students should not just select the highest profit but should consider the ethical and financial implications of their decisions.

|                                                                                                                                                       |                                                                                                                      |          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|----------|
| <b>Option 1</b><br><br><b>Sales =</b><br><br>$\$20 * 2\ 000 = \$40\ 000$<br><br><b>Cost of Sales =</b><br><br>$\$14 * 2\ 000 = \$28\ 000$             | <b>Sales</b> <b>\$40 000</b><br><br><b>Cost of Sales</b> <b>\$28 000</b><br><br><b>Gross Profit</b> <b>\$12 000</b>  | <b>2</b> |
| <b>Option 2</b><br><br><b>Sales =</b><br><br>$\$20 * 2\ 000 * 0.7 = \$28\ 000$<br><br><b>Cost of Sales =</b><br><br>$\$10 * 2\ 000 * 0.7 = \$14\ 000$ | <b>Sales</b> <b>\$28 000</b><br><br><b>Cost of Sales</b> <b>\$14 000</b><br><br><b>Gross Profit</b> <b>\$ 14 000</b> | <b>2</b> |
| <b>Option 3</b><br><br><b>Sales =</b><br><br>$\$20 * 2\ 000 * 0.6 = \$24\ 000$<br><br><b>Cost of Sales</b><br><br>$\$5 * 2\ 000 * 0.6 = \$10\ 000$    | <b>Sales</b> <b>\$24 000</b><br><br><b>Cost of Sales</b> <b>\$6 000</b><br><br><b>Gross Profit</b> <b>\$18 000</b>   | <b>2</b> |

- b. Discuss the ethical and financial considerations relating to the decision required to be made by the owner of Sip It.

5 marks

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5   | <p>Detailed understanding of ethical and financial implications of decisions that the owner must consider when determining decisions made relating to the business.</p> <p>Comprehensive discussion of the choice of supplier made by a business owner and the implication on the business.</p> <p>Accurate use of correct accounting terminology and discussion of the implications of decision making on the performance of the business.</p> |
| 3-4 | <p>Demonstrated an understanding of the choice of suppliers made by a business owner</p> <p>Referred to both positive and negative implications of these decisions.</p> <p>General use of correct accounting terminology and reference to the implications on the impact on the performance of the business</p>                                                                                                                                 |
| 1-2 | <p>Basic, if any reference to ethical and financial considerations</p> <p>General use of correct accounting terminology</p>                                                                                                                                                                                                                                                                                                                     |
| 0   | Displays no knowledge of ethical and financial considerations                                                                                                                                                                                                                                                                                                                                                                                   |

**Sample Answer:** Sip It have a number of options to consider when purchasing coffee beans. When considering the information being provided the option to use the new supplier which is not a fair trade supplier the business provides the highest gross profit. This raises ethical concerns for the business as the profit is only marginally higher than the fair trade accredited option. There appears to be customer hesitance over using non fair trade beans and the decision to use those suppliers appears to result in customers seeking other options. The owner must also consider that the suppliers all present different backgrounds. While the second option is not accredited it may still provide the beans produced under the same conditions although the cost of the administration of fair trade accreditation makes this purchase prohibitive although the decline in customers indicates that the customers value that accreditation.

The option that provides the most profit appears to have significant ethical issues as there are issues raised around land use and wages paid by the supplier.

The owner must consider both the profit and the ethical considerations of the suppliers when determining decisions made in their business.

**End of Solutions and advice Book**