



GENERAL COMMENTS

The June 2010 examination comprised of two 45-mark questions, with multiple parts to each question. Each question presented a business scenario which provided a variety of practical and theoretical questions. It is important for students to note that all areas of the *VCE Accounting Study Design* can be covered by the variety of questions within the examination.

Students had 90 minutes to complete the paper and the majority of students were able to complete the examination within the time provided.

The balance between theory and practical questions followed a similar pattern as the 2009 examination. However, teachers and students are reminded that there is no pre-determined weighting between practical and theoretical-type questions.

There was an improvement in 2010 in relation to the use of correct titles. This improvement was noted in relation to both General Ledger and General Journal entries. Full titles should always be used when preparing ledger accounts. An area of concern this year was the number of alien entries in both ledger accounts and accounting reports. An alien is an item that simply does not belong in that report or record. For example, the entry Debtors Control should never be recorded in a Stock Control ledger account. Stock is always recorded at cost price and the Debtors Control account is based on the prices charged to customers (i.e. selling prices). Therefore an entry for Debtors Control in a Stock Control account is an illogical entry. Similarly, when preparing a Cash Flow Statement students should ensure that only cash items are included in the report. Items such as Cost of Sales, Discounts and Credit Sales do not involve a flow of cash and therefore should never be reported in a Cash Flow Statement. Students should ensure that they are able to identify cash flows.

Theoretical-type questions continue to be quite challenging for many students. It was apparent that students did not read questions carefully as their responses did not answer the question asked, particularly in Question 2.1.2. This question asked students to explain why businesses adopt the FIFO cost assignment method. Many students simply stated how the FIFO method worked or made incorrect statements about what is involved in the FIFO system. Students are encouraged to read questions carefully as it appeared that some students did not pay attention to the key words used.

Many students had difficulty answering the three questions that related to the GST Clearing account. Students were well prepared in terms of recording GST events, but on this examination the quality of answers to theoretical questions was disappointing and improvement is needed.

SPECIFIC COMMENTS

Question 1 – Bazza Barbies

Question 1.1

Marks	0	1	2	3	4	5	Average
%	8	25	37	19	8	3	2.1

Balance Sheet (Extract) at 31 January 2010

Current Assets		Current Liabilities	
Cash at Bank	21 500	Loan	10 000
Stock Control	35 000	Accrued Rent Expense	2 000
GST Clearing	3 500		
Non-Current Assets		Non-Current Liabilities	
Delivery Van	20 000	Loan	40 000

This question proved quite difficult for many students and very few were able to achieve full marks. Many students appeared to be confused with the amount of information provided in the question. Common errors included:

- omitting Accrued Rent
- not splitting the Loan between the two classifications
- omitting the GST Clearing amount of \$3 500

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- incorrectly calculating the balance of Cash at Bank.

Question 1.2.1

Marks	0	1	2	3	4	Average
%	8	9	11	33	39	2.9

CASH RECEIPTS JOURNAL (Summary)

Date 2010	Particulars	Rec. No.	Bank	Disc. expense	Debtors	Cost of Sales	Sales	GST	Sundries
28 Feb	Totals to date		44 000	-	-	24 000	40 000	4 000	-
	J Hardy	36	2 695	55	2 750				
	Capital	37	3 000						3 000
	Totals for Feb		49 695	55	2 750	24 000	40 000	4 000	3 000

One mark each was awarded for the two entries required in the Receipts Journal. However, to gain the marks available the complete entry had to be accurately recorded. Common errors included:

- miscalculation of the discount granted to the debtor
- incorrect titles being used (for example, Debtors Control rather than J Hardy)
- inclusion of the GST for the receipt of cash from the debtor.

GENERAL JOURNAL

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
28 Feb	Drawings	600			
	Stock Control		600		

This part of the question was handled quite well by most students. Most students could correctly record the double entry required but, unfortunately, some students used the selling price of the stock rather than the cost price. It was pleasing to note that the majority of students were aware of how to record a withdrawal of stock by an owner. One mark was allocated to each line of the General Journal.

Question 1.2.2

Marks	0	1	2	3	4	5	6	7	8	9	Average
%	14	5	5	4	5	6	8	12	18	24	5.6

BANK

Date 2010	Cross Reference	\$	Date 2010	Cross Reference	\$
1 Feb	Balance	21 500	28 Feb	Cash Payments	18 730
28 Feb	Cash Receipts	49 695		Balance	52 465
		71 195			71 195



DEBTORS CONTROL

Date 2010	Cross Reference	\$	Date 2010	Cross Reference	\$
28 Feb	Sales/GST Clearing	15 400	28 Feb	Bank/Discount Expense	2 750
				Balance	12 650
		15 400			15 400

STOCK CONTROL

Date 2010	Cross Reference	\$	Date 2010	Cross Reference	\$
1 Feb	Balance	35 000	28 Feb	Cost of Sales	24 000
28 Feb	Creditors Control	15 000		Cost of Sales	8 400
	Bank	3 300		Drawings	600
				Balance	20 300
		53 300			53 300

The majority of students gained most of the marks available for this question and produced some very good responses. The data used in Question 1.1 had to be transferred to this question in the form of the opening balances for both Bank and Stock Control. Teachers and students should note that if an incorrect entry was made in Question 1.1 it would not have been penalised again in this question.

A marked improvement was noted this year in relation to the use of correct titles in ledger accounts. However, some students did not use correct titles for entries such as:

- Bank/Discount expense – ‘receipts’ was not acceptable
- Sales/GST Clearing – many students omitted the GST part of the entry.

Other common errors included:

- omitting the Drawings entry
- combining the two Cost of Sales entries into one entry
- incorrectly posting the Cash Receipts amount from the journal, completed as part of Question 1.2.1.

Question 1.2.3

Marks	0	1	2	Average
%	40	26	34	1

DEBTOR – J Hardy

Date 2010	Cross Reference	\$	Date 2010	Cross Reference	\$
15 Feb	Sales/GST Clearing	2 750	28 Feb	Bank/Discount Expense	2 750

This question proved quite problematic for many students. The titles used in the subsidiary account should be the same as that used in the Debtors Control account. Students should note that the dates used in a subsidiary account are the actual dates of the transactions. Many students could not complete this subsidiary account, despite the fact that their Control account was done correctly. One mark was allocated to each of the two entries, with a one mark penalty for incorrect dates being entered in the account.

Question 1.2.4

Marks	0	1	Average
%	28	72	0.7

Statement: Increase expenses or decrease profit

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As the question asked for the effect on the Profit and Loss Statement, students were able to gain the one mark available by either correctly identifying an increase in expenses or a decrease in profit. The large majority of students could correctly identify one of these two correct responses. Some students discussed profitability, which was inappropriate to the question asked.

Question 1.2.5

Marks	0	1	2	Average
%	46	26	29	0.9

Explanation: specialised journals summarise similar transactions, allowing totals to be posted. This process has the effect of removing bulky detail from the General Ledger.

In order for students to be awarded full marks for this question, one benefit had to be clearly identified and a full explanation was needed. Students should note that one sentence does not usually contain sufficient information to gain the maximum marks possible. Many students could not explain a benefit of using specialised journals.

Question 1.2.6

Marks	0	1	2	Average
%	50	26	24	0.8

Explanation: The Sundries column of the Cash Journals contains a variety of cash transactions which must be posted individually to separate ledger accounts. 'Sundries' is not a ledger account name as it does not provide any detail as to the nature of the transactions involved.

Many students simply stated that entries in the Sundries column were **not** posted to the General Ledger, which is incorrect. All entries needed to be posted; they are not posted to a Sundries account because the Sundries column may include several different types of transactions.

Question 1.3.1

Marks	0	1	2	3	4	5	6	7	8	9	10	Average
%	9	3	4	5	7	9	12	17	17	15	4	5.9

GENERAL JOURNAL

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
30 June	Stock Control	700			
	Stock Gain		700		
	Delivery Van Repairs Expense	3 000			
	Delivery Van		3 000		
	Depreciation of Delivery Van	1 200			
	Accumulated Dep'n of Delivery Van		1 200		
	Interest Expense	1 875			
	Accrued Interest Expense		1 875		
	Insurance Expense	800			
	Prepaid Insurance Expense		800		

One mark was allocated for each correct entry in the General Journal. This question proved to be quite challenging for many students. Calculations needed to be made for many entries, as well as identification of the double entry required for the adjustment or correcting entry. Calculations were required to determine the:

- amount of the stock gain for the period
- depreciation of the delivery van
- interest owing on the loan
- amount of insurance incurred.

Common errors made by students included:

- reversing the Stock Gain entry
- incorrectly identifying a stock loss, rather than a stock gain

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- not adjusting the value of the delivery van for the correction to delivery van repairs
- calculating the interest for 6 months rather than 5 months
- calculating the insurance expense for 6 months rather than 3 months.

Question 1.3.2

Marks	0	1	2	3	4	5	6	Average
%	13	4	6	8	13	23	32	4

Bazza Barbies Profit and Loss Statement for 6 months ended 30 June 2010

	\$	\$
Sales		300 000
less Cost of Goods sold		
Cost of Sales	177 000	
Freight In	2 600	179 600
Gross Profit		120 400
plus Stock Gain		700
Adjusted Gross Profit		121 100
plus Other Revenue		
Discount Revenue		420
		121 520
less Other Expenses		
Delivery Van Repairs	3 000	
Insurance	800	
Depreciation of Delivery Van	1 200	
Interest Expense	1 875	
Freight Out	1 800	
Rent	12 000	
Wages	66 000	
Discount Expense	1 300	87 975
Net Profit		33 545

Students provided a variety of responses to this question, with many failing to carry forward their adjustments from the previous question. Students are reminded that, regardless of incorrect responses on previous questions, they will not be penalised again for an incorrect amount. Therefore, regardless of the response to Question 1.3.1, this amount should have simply been carried forward to Question 1.3.2 and marks would have been awarded, as long as the item was correctly classified.

Apart from omitting revenue and expense items, some students were penalised for incorrect titles, while others were penalised for not following the specified format of the Profit and Loss Statement.

Question 1.4.1

Marks	0	1	2	Average
%	41	36	24	0.9

Explanation: Depreciation represents information which is useful in decision making and shows the amount of a non-current asset that has been consumed during a period. This is relevant to decision makers as they assess the performance of the business. The allocation of depreciation provides a more accurate matching of revenue and expenses in order to accurately calculate net profit.

This question proved challenging for many students. It focused on depreciation as an expense, and many students discussed using depreciation as a valuation tool. Depreciation expense is not concerned with determining a market value for each reporting period. It is the allocation of part of the cost of an asset as an expense in order to determine an accurate profit for a reporting period.

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Question 1.4.2

Marks	0	1	2	Average
%	29	27	44	

Explanation: Depreciation is based on estimates such as useful life and residual value, and therefore cannot be verified by source documents. Depreciation is therefore based on personal opinion and is not free from bias.

A greater number of students demonstrated an ability to discuss depreciation in relation to **reliability**, rather than **relevance** in the previous question. Some students only received one of the two marks available as they failed to make a second point in their response. Some students claimed that depreciation is reliable as it can be checked by source documents; however, this is incorrect.

Question 2 – Jenny’s Water Tanks

Question 2.1.1

Marks	0	1	2	3	Average
%	4	4	19	73	

Stock Card: Flat Line Tanks (2500 litres)

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
1 June 2010	Balance							10	800	8 000
1 June	Inv. 346	32	850	27 200				10 32	800 850	35 200
8 June	Inv. WT26				10 25	800 850	8 000 21 250	7	850	5 950
18 June	Memo 28				1	850	850	6	850	5 100

This question was handled very well by the majority of students, with most responses being awarded full marks. One mark was awarded for each of the three lines in the Stock Card. Some students were penalised for incorrect recording procedures such as:

- using selling prices for the entry on 8 June
- not recording document numbers in the Details column
- incorrect application of the First-In-First-Out method
- incorrect treatment of the memo on 18 June. Some students treated this item as an inflow of stock, rather than an outflow.

Question 2.1.2

Marks	0	1	2	Average
%	82	13	5	

Explanation: FIFO may be used when a business is physically unable to identify individual stock items which have different cost prices. Management may elect to adopt the FIFO assumption rather than having to label every item with its cost price. It is therefore an easier method of cost allocation.

Many students could not identify why FIFO may be adopted by the owner of a trading business. The most common **incorrect** responses suggested reasons such as:

- FIFO is used to ensure that the oldest stock is sold first
- FIFO makes sure that you do not get caught with too much stock
- FIFO is used so that goods are sold before their use-by date.

The FIFO assumption is **not** adopted to ensure that the first goods purchased are the first goods sold. FIFO is an assumed stock flow for one purpose only: cost allocation for the recording of Cost of Sales. It is nothing more than an assumption and does not necessarily equate to the actual flow of physical stock items.

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Question 2.1.3

Marks	0	1	2	3	4	Average
%	0	0	0	0	100	4

GENERAL JOURNAL

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
18 June	Water tank	1200			
	GST Clearing	35			
	Stock Control		850		
	Creditor – Joe’s Plumbing		385		

This question related to stock used for advertising purposes. A review of the exam paper revealed that this question was out of scope and elements of the question were a part of the key knowledge and key skills of Unit 4. Therefore, all students were awarded full marks for this question.

Question 2.1.4

Marks	0	1	2	Average
%	44	33	23	0.8

Explanation: The invoice price or the original cost price of the tank plus any additional costs incurred in getting the non-current asset into a location or condition ready to use. Such costs would include the cost of installation in relation to the water tank.

Students were required to use the water tank as an example in this question and students who did not refer to the water tank could not gain full marks. Students are advised to read questions very carefully to ensure that they follow the instructions provided and answer the question in the correct manner.

Question 2.2.1

Marks	0	1	2	Average
%	25	20	55	1.3

Entry 1: Purchases Journal

Entry 2: Cash Receipts Journal

This question asked students to identify the journals used to record two transactions. A significant number of students prepared written answers such as bought goods on credit and sold goods for cash. For the second entry a common error was also bought goods for cash, which was evidence of a lack of knowledge in relation to the GST Clearing account. Responses that did not attempt to name a journal indicated that students did not read the question carefully.

Question 2.2.2

Marks	0	1	Average
%	60	40	0.4

Statement: Represents a cash receipt which is a GST refund from the ATO

Many students did not recognise that the credit entry to the GST Clearing account was a GST refund. This should have been readily identifiable as the amount of \$770 was the opening debit balance of the GST account.

Question 2.2.3

Marks	0	1	Average
%	18	82	0.8

Statement: Current liability

This question was handled well by most students. When a GST Clearing account is presented, students are advised to check the dates provided to ensure that they correctly classify the item. In this case the date was 30 June, which indicated that the balance to be considered was the closing balance at the end of the reporting period.

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Question 2.2.4

Marks	0	1	2	3	Average
%	30	17	21	32	1.6

Characteristic 1: there must be a present obligation

Characteristic 2: arising from a past event

Characteristic 3: requiring an outflow of economic benefits

One mark was awarded for each correctly identified characteristic of a liability. In many cases, only one or two correct responses were provided. It appeared that many students were distracted by the word 'characteristic' in the question and some gave answers in line with the qualitative characteristics of accounting. Responses such as reliability, relevance and comparability were incorrect and could not be awarded any marks.

Question 2.3.1

Marks	0	1	Average
%	49	51	0.5

Calculation	
\$ 642 000	
+ \$ 290 000	
+ \$ 100 000	
+ \$ 29 000	
= \$1 061 000	
Total Cash Received	\$ 1 061 000

This question provided a variation on similar questions from previous examinations. It involved the calculation of actual cash received, with discounts being taken into account. Many students could not correctly calculate the cash received by the business.

Question 2.3.2

Marks	0	1	2	3	4	5	6	Average
%	18	6	8	9	13	21	25	3.6

JENNY'S WATER TANKS Cash Flow Statement (extract) for year ended 30 June 2011

	\$	\$
Cash Flow from Operating Activities		
Receipts from Debtors	642 000	
Cash Sales	290 000	
GST Received	29 000	961 000
Payments to Creditors	(338 500)	
GST Paid	(31 000)	
Purchases of stock	(280 000)	
Wages	(246 000)	
Accrued Wages	(2 000)	
Prepaid Advertising	(38 000)	
Loan Interest	(1 500)	(937 000)
Net Cash from Operating Activities		24 000

Marks were deducted for alien entries (such as Cost of Sales and Discounts) and for items incorrectly classified (such as Drawings and Loan repayments, which are financing activities).

The poorer responses to this question failed to identify all of the operating items. Many students failed to deduct the discounts to determine both the cash received from debtors and cash paid to creditors.

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Question 2.3.3

Marks	0	1	2	3	4	Average
%	47	17	16	12	8	1.2

Explanation: Cash flow from operating activities is based on cash receipts (cash in) and cash payments (cash out). Net Profit is calculated on an accrual basis: revenue earned less expenses incurred.

Acceptable examples included:

- Credit Sales were greater than Receipts from Debtors
- Expenses paid were greater than Expenses incurred
- Payments to Creditors were greater than Cost of Sales
- GST paid was greater than GST received
- Stock Gain
- Discount revenue was greater than discount expense.

This type of question has been featured on many previous examinations. Many students did not read the question carefully as this question did not simply compare profit to cash; it compared net cash from operating activities to net profit. Inappropriate responses included comments such as:

- the firm had large loan repayments (this is irrelevant as it relates to financing)
- the owner had a large amount of drawings (this also relates to financing).

Other poor responses made simple statements such as sales were on credit and do not affect bank. To be awarded full marks, the connection between credit sales and cash must be made.

The more successful responses clearly identified the difference between cash from operations and net profit, and worked the examples into the explanation to make the difference very clear.

Question 2.4.1

Marks	0	1	2	Average
%	53	35	11	0.6

	Overstated/Understated/No Effect	Amount
Assets	Overstated	32 000
Liabilities	No effect	Nil
Owner's equity	Overstated	32 000

One mark was awarded for correctly identifying the effect on assets and owner's equity. Many responses were illogical as the equation as stated by many students would not be in balance. For example, if assets are overstated by \$32 000 and owner's equity is understated by \$10 000, the equation cannot balance. Students are strongly advised to check their responses to ensure that they have given a logical answer to the question asked.

Question 2.4.2

Marks	0	1	Average
%	56	44	0.5

Statement: \$6 000

As the key word in this question was 'state', the simple response required was the amount of \$6 000.

Many students did not respond to this question and left the answer box blank. It is crucial that students work through all parts of a question and carry their answers on to the subsequent question when there is a clear link. Consequential errors will not be penalised when the dollar values flow from one question of the examination to a subsequent question.

Question 2.4.3

Marks	0	1	2	3	4	5	Average
%	23	4	6	13	31	24	3



GENERAL JOURNAL

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
30 June	Sales	985 000			
	Discount Revenue	1 500			
	Stock Gain	1 200			
	Profit and Loss Summary		987 700		
	Profit and Loss Summary	848 500			
	Cost of Sales		560 000		
	Depreciation of Equipment		1 500		
	Discount Expense		3 000		
	Interest Expense		2 000		
	Advertising		32 000		
	Wages		250 000		

The major concern for many students was not being able to identify all three revenue accounts and all six expense accounts. Some students also reversed the entries.

Question 2.4.4

Marks	0	1	2	Average
%	44	20	36	0.9

CAPITAL

Date 2011	Cross Reference	\$	Date 2011	Cross Reference	\$
30 June	Drawings	85 000	30 June	Balance	275 000
				Profit and Loss Summary	139 200

One mark each was awarded for the Drawings entry and the Profit and Loss Summary entry. The opening balance had to be included and its omission was penalised by one mark. Many students either omitted the Profit and Loss Summary entry or used an incorrect title (such as Net Profit). Other responses failed to include Drawings on the debit side, despite the fact that it was provided in the Trial Balance in the question booklet.

Question 2.4.5

Marks	0	1	2	Average
%	59	24	17	0.6

WAGES EXPENSE

Date 2011	Cross Reference	\$	Date 2011	Cross Reference	\$
30 June	Bank	246 000	30 June	Profit and Loss Summary	250 000
	Accrued Wages	4 000			
		250 000			250 000

One mark was awarded for both debit entries, with the other mark being awarded for correctly closing the account. This required the Profit and Loss Summary entry, plus the formal closing of the account, including having the totals on both sides of the account to indicate that it is closed.

This question provided a variation on the standard expense account type question. Rather than provide the cash paid for wages and the amount of accrued wages, this question provided the total wages incurred, along with accrued wages at

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the end of the period. Many students incorrectly recorded the \$250 000 as the amount paid. The correct amount for wages paid was \$246 000, which had to be determined by working backwards through the wages account. This may have been a reason why many students scored poorly on this question.

Question 2.4.6

Marks	0	1	2	3	Average
%	26	18	28	27	1.6

- Explanation: The business life is assumed to continue indefinitely. Asset accounts are not closed but carried forward as they are expected to generate future economic benefits for the business. That is, they are yet to be fully consumed but are expected to continue into future periods.

Accounting Principle: Going Concern

- Explanation: Asset accounts are carried forward to the subsequent period as the future economic benefits are yet to be consumed and are expected to be consumed in the next reporting period.

Accounting Principle: Reporting period

Question 2.5.1

Marks	0	1	Average
%	71	29	0.3

Cash Payments Journal (summary)

Date	Details	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	Wages	GST	Sundries
1 July	Accrued Wages Wages	456	5 000				1 000		4 000

To gain the mark both the Accrued wages entry and the Wages entry had to be complete. This question was very poorly answered. The two entries needed to be recorded separately, with one amount shown in the Wages column and the other in the Sundries column.