



GENERAL COMMENTS

The June 2006 examination was comprised of two questions, with multiple parts to each question. The questions and subsequent parts graduated in difficulty, and this format will continue. The majority of students were able to complete the examination.

Each question dealt with one scenario and was worth 45 marks. To enable the questions to be broken into parts, each scenario dealt with time periods of differing length. Students needed to read the questions carefully to ensure they understand the period of time being dealt with. Often students did not adequately read the dates provided, which led to the miscalculation of figures such as depreciation and/or the omission of information.

The balance between theory and practice was again approximately 40:60 and this is expected to continue. This balance covers the whole examination, but is not necessarily the case for each scenario.

It appeared that many students and teachers had used past Assessment Reports in their preparation for the examination, which was pleasing to note. The purpose of the Assessment Report is to identify areas in which students performed well or poorly, to comment on trends and to offer advice to students and teachers. Current and past reports often contain valuable advice and information for current Unit 3 and 4 students.

Asset Revaluation has been an area of concern over the past few years; however, students performed much better this year, which was pleasing.

Although in recent times students had improved their use of terminology and knowledge of accounting principles and characteristics, in this examination there was a disturbing number of students who identified characteristics that are no longer part of the course. The use of the 'matching', 'verifiability' and 'consistency' principles occurred regularly, which was a concern. Although 'consistency' will be recognised in the reaccredited *Accounting VCE Study Design* (commencing in 2007), the other two principles remain outside the Study Design and students and teachers must avoid referring to them.

Students should use the Answer Book as a guide when completing Journals, Ledger Accounts, Stock Cards and Reports. It is standard practise for the Answer Book to contain one line for each entry/item in the record or report plus one extra line. Too often students fill up a record or report or fail to use the correct number of lines. This indicates that they have either omitted an entry/item or included an alien. Both errors attract a one mark deduction.

Students must ensure they read the question carefully. Some questions contained restrictions that were designed to focus student attention. Students who ignored these restrictions could not achieve full marks for that particular question.

SPECIFIC COMMENTS

Question 1 – Fi's Sports

1.1.1

Marks	0	1	2	3	Average
%	45	30	19	6	0.9

The Post Referencing column:

- indicates the ledger account to which each General Journal entry is posted
- acts as a checking device between journals and ledger accounts
- acts as an audit trail
- acts as a cross check.

Source

- Chart of Accounts

Unfortunately, students did not answer this question well. Many students referred to the Post Referencing number as a means of tracing the information in the Journal **back** to the Ledger account, which is incorrect. Similarly, other students incorrectly stated that Post Referencing allows owners and accountants to trace the transaction back to its source document.

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In naming the source of the account numbers, many students identified the system of allocating account numbers and did not answer the actual question.

Two marks were awarded for any of the two explanatory points above, and one mark for identifying the source of the Post Referencing number.

1.1.2

Marks	0	1	Average
%	40	60	

Entity or Monetary

This was a straightforward question and students handled it well. Although the 'entity' principle was the preferred response, the 'monetary' principle was also accepted.

1.2.1

Marks	0	1	Average
%	11	89	

PURCHASES JOURNAL PJ1

Date 2006	Creditor	Post Ref.	Invoice	Amount \$
	A1 Sports Supplier		76	12 000

This question was handled very well by students. Students needed to provide all three key items – creditor name, invoice number and amount – to gain the mark.

1.2.2

Marks	0	1	2	3	Average
%	39	20	22	20	

103

STOCK

Date 2006	Cross Reference	Post Ref.	\$	Date 2006	Cross Reference	Post Ref.	\$
Jan 31	Creditor		12 000	Jan 31	Cost of Sales		1 350

401

SALES

Date 2006	Cross Reference	Post Ref.	\$	Date 2006	Cross Reference	Post Ref.	\$
				Jan 31	Debtor		2 150

When answering this question students made many common mistakes. For example, posting the information on the date the transaction occurred rather than the last day of the period, using incorrect titles such as Cost of Goods Sold instead of Cost of Sales and using the individual creditor name. Such errors attracted a one mark penalty.

One mark was allocated to each of the three entries.

1.2.3

Marks	0	1	2	Average
%	13	23	64	

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Stock Item: Baseball bats

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
Jan 2006										
	Inv 76	40	50	2 000				40	50	2 000
	Inv 1				15	50	750	25	50	1 250

This question was handled well by students. The two reasons for students not gaining full marks were the use of the selling price rather than the cost price for the sale of stock, and failure to use the document number in the Details column.

One mark was awarded for each line.

1.3.1

Marks	0	1	2	3	4	5	6	Average
%	26	18	13	12	13	12	7	2.4

GENERAL JOURNAL

GJ1

Date 2006	Accounts	Post Ref.	Debit \$	Credit \$
Mar 31	Depreciation – Computer Equipment		150	
	Accumulated Depreciation – Computer Equipment			150
	Accumulated Depreciation – Computer Equipment		150	
	Carrying Cost – Computer Equipment			150
	Carrying Cost – Computer Equipment		3 000	
	Computer Equipment			3 000
	Computer Equipment		500	
	Proceeds from Sale of Computer Equipment			500
	Computer Equipment		5 500	
	Sundry Creditor – Computers For You			5 500

Cash Payments Journal

CPJ 1

Date 2006	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Wages	Stock	Sundries
Mar 31	Sundry Creditor		1224	1 000					1 000

This question clearly identified three requirements and allocated marks accordingly. One mark was allocated for each set of entries in the General Journal, and one mark for the entry in the Cash Payments Journal. The recording of the Depreciation Expense (worth one mark) was often omitted by students. The provision of the Cash Payments Journal was also often ignored by students. If such a journal is provided it must be used.

A number of alternative solutions were also accepted by assessors. The key to the question was for students to identify that the final balance for the Sundry Creditor was \$4500. It was pleasing to see many students using the correct titles for the ledger accounts.

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1.3.2

Marks	0	1	2	3	Average
%	46	20	21	14	1.1

FP'S SPORTS STATEMENT OF FINANCIAL PERFORMANCE FOR THE QUARTER ENDED 31 MARCH 2006 (extract)

Revenue	\$	\$
Proceeds from Sale of Computer Equipment		500
Expenses		
Depreciation Expense – Computer Equipment	150	
Carrying Cost – Computer Equipment	2850	

This question, which followed on from the previous one, was not handled well. Many students did not include the Depreciation Expense, or they reported the Historical Cost (\$3000) as the Carrying Cost.

One mark was available for each item.

1.3.3

Marks	0	1	Average
%	82	18	0.2

STATEMENT OF CASH FLOWS

Item	Classification (Operating/Financing/Investing)	Inflow/ Outflow	Amount \$
Computer Equipment	Investing	Outflow	1 000

Many students incorrectly included the trade-in allowance as a cash inflow or included the whole \$6000 for the asset as an outflow when answering this question.

1.4.1

Marks	0	1	2	Average
%	34	26	40	1.1

Straight Line method

$$\$6000 \times 20\%$$

$$= \$1200 \text{ (depreciation expense)}$$

Reducing Balance method

$$\$5550 \times 30\%$$

$$= \$1665 \text{ (depreciation expense)}$$

One mark was available for each calculation. Students who performed poorly on this question often calculated the depreciation expense for a quarter rather than a year.

1.4.2

Marks	0	1	2	Average
%	31	26	42	1.2

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Item	Overstated/Understated/No Change	Amount \$
Effect on Assets	Understated	465
Effect on Owner's Equity	Understated	465

One mark was available for each correct line

The amount provided by students was consequential to their response to Question 1.4.1. Students generally understood that profit would be understated. However, many students stated that one item was understated and the other item was overstated. The principles of double-entry accounting mean that this is not correct. It should be emphasised to students that they must be consistent in their responses.

1.4.3

Marks	0	1	2	Average
%	50	21	29	0.9

No overall effect. Regardless of the depreciation method selected:

- the asset's contribution to revenue earning will be the same
- the value allocated each period may differ but the total accumulated depreciation over the life of the asset will be the same.

This was a different type of depreciation question to those that have appeared on previous exams, and the standard of responses indicated that this year's students had a deeper understanding of the concept of depreciation than indicated by previous responses.

Students needed to state that there would be no overall effect to gain one mark before moving on to the next part of their response.

1.4.4

Marks	0	1	2	Average
%	37	34	29	1.0

Select the depreciation method that best fits:

- the asset's pattern of use
- the output or contribution of the computer to the revenue earning of the business.

Students could select either method but needed to justify their response in relation to the computer in order to gain the second mark. Students generally managed to gain one mark but often failed to link their response to the particular asset identified in the question.

1.4.5

Marks	0	1	2	3	Average
%	27	12	34	26	1.7

Comparability

- Subsequent accounting reports will not be able to be compared accurately from one year to the next if the method of depreciation and/or method of measurement is changed.
- Inconsistent preparation of reports can provide misleading information to decision makers.

Many students incorrectly identified 'consistency' as a qualitative characteristic. These students were unable to gain full marks. The key points regarding 'comparability' are that reports need to be able to be compared accurately over a number of reporting periods and a consistent approach to preparing reports is required.

1.5.1

Marks	0	1	2	3	4	Average
%	27	10	13	11	38	2.3

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GENERAL JOURNAL

GJ3

Date 2006	Accounts	Post Ref.	Debit \$	Credit \$
30 June	Accumulated Depreciation – Building		5 000	
	Buildings			5 000
	Buildings		75 000	
	Asset Revaluation Reserve			75 000

One mark was provided for each line; however, students could combine the entries into three lines and still gain full marks.

This area has been handled poorly in the past and it was pleasing to see students perform better in this examination. A common error was to debit the Buildings Account with the new valuation amount (\$290 000).

1.5.2

Marks	0	1	2	Average
%	34	35	31	1.0

An independent, expert, sworn valuation, based on an independent estimate or valuation. It reflects the current/market value of the asset.

For full marks, students needed to identify two points. Students must recognise that the valuation is made by an independent person and reflects the current market value of the asset. Many students only included one of the two points.

A number of students used the phrase ‘...in an arm’s length transaction’. This response was not correct.

1.5.3

Marks	0	1	Average
%	31	69	0.7

Relevance

This was the only response accepted.

1.5.4

Marks	0	1	2	Average
%	32	18	50	1.2

Reliability

This may not be in agreement with the use of fair value because the valuation:

- is not supported by source documents
- is based on estimates and judgements
- is not free from bias.

One mark was allocated for the qualitative characteristic and one mark for the justification.

It was expected that students would select ‘reliability’ as the qualitative characteristic and make reference to the lack of documentary evidence. However, some students identified ‘comparability’ and were able to gain full marks if their justification was appropriate.

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1.6.1

Marks	0	1	2	3	Average
%	26	12	22	41	1.9

105

PREPAID ADVERTISING

Date 2006	Cross Reference	Post Ref.	\$	Date 2006	Cross Reference	Post Ref.	\$
30 June	Bank		9 000	30 June	Advertising Exp		1 500
					Balance		7 500
			9 000				9 000

One mark was available for each of the three entries.

This question tended to be handled very well or very poorly – there were few middle range responses. Common mistakes included identifying the first entry as ‘Balance’ rather than ‘Bank’ and ‘footing the account’ rather than balancing the account.

1.6.2

Marks	0	1	2	Average
%	30	17	53	1.3

Item	Overstated/Understated/No Change	Amount \$
Effect on Assets	Overstated	1 500
Effect on Owner’s Equity	Overstated	1 500

As with 1.4.2, students who did not perform well in this question often wrote overstated on one line and understated on the other line. This showed they did not fully understand the two-fold effect on transactions of accounting reports.

Question 2 – KB Petrol Supplies

2.1.1

Marks	0	1	2	Average
%	62	11	27	0.7

9 000 @ \$1.05 = \$ 9 450

10 000 @ \$1.10 = \$11 000

600 @ \$1.00 = \$ 600

Stock Value = \$21 050

This question was poorly answered. Students often calculated the value of stock purchased for the period or the value of Cost of Sales.

This question also served to demonstrate that many students did not seem to fully understand the concept of the first in, first out (FIFO) stock valuation method or did not properly read the requirements of the question.

2.1.2

Marks	0	1	Average
%	60	40	0.4

400 litres @ \$1.00 per litre

= \$400

Consequential responses were accepted based on students’ responses to Question 2.1.1. The quantity of stock was provided and students were required to apply a cost. This question again indicated that many students did not understand FIFO.

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2.1.3

Marks	0	1	2	Average
%	10	20	70	1.7

Reasons for the stock loss, other than theft, could include:

- undersupply from supplier
- oversupply to customer
- recording errors in physical measuring or recording in stock cards
- leakage
- evaporation
- loss through spillage.

This question was well answered as students were able to supply a rote learned/textbook response. The explanation for the stock loss needed to match the type of stock in the question; for example, damage was not an appropriate response for petrol as the stock item. Students also read the question carefully and did not identify theft as a reason.

2.2.1

Marks	0	1	2	3	4	5	6	7	8	Average
%	12	6	6	6	7	9	12	15	27	5.2

KB PETROL SUPPLIES 6 COLUMN WORKSHEET AS AT 30 JUNE 2007

ACC. NO.	ACCOUNT	Trial Balance		Adjustments		Adjusted Trial Balance	
		DEBIT \$	CREDIT \$	DR \$	CR \$	DR \$	CR \$
101	Bank	22 000					
102	Debtors	5 800					
103	Stock	85 000		1 400		86 400	
104	Prepaid Rent Expense	28 000			24 000	4 000	
151	Equipment	100 000					
151A	Accumulated Depreciation – Equipment		7 600		15 000		22 600
201	Creditors		35 000				
251	Bank Loan		50 000				
301	Capital – K Bates		98 900				
302	Drawings	57 000		1 000		58 000	
401	Sales		555 000				
500	Discount Expense	700					
501	Cost of Sales	350 000					
502	Administration Expenses	10 000					
503	Interest Expense	2 000			1 000	1 000	
504	Wages	86 000		1 200		87 200	
	Stock Gain				1 400		1 400
	Depreciation Expense – Equipment			15 000		15 000	
	Accrued Wages				1 200		1 200
	Rent Expense			24 000		24 000	
	TOTALS	746 500	746 500				

The completion of the Rent Expense adjustment caused the most problems for students. This seemed to be because students did not understand that Prepaid Rent Expense is the correct title for an asset.

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Two marks were allocated for the stock adjustment, two marks for the depreciation adjustment (which needed to include the name of the non-current asset), one mark for correcting the error, one mark for the wages adjustment and two marks for the rent adjustment.

Marks were deducted for alien entries, reversal of entries and incorrect titles. In addition, one mark was deducted if the adjustments were not completed in the Adjusted Trial Balance.

2.2.2

Marks	0	1	2	3	Average
%	39	24	22	15	1.2

The relevant accounting principle was Reporting Period.

Balance day adjustments are required:

- to effectively record all revenues earned against expenses incurred each period
- to accurately measure profit
- to better measure profit.

Many students did not 'finish' their responses to this question. Many students were able to gain two marks by correctly identifying the accounting principle and one of the two other points. The use of the terms 'earned' and 'incurred' was pleasing; however, students often did not expand their response to include the statement that profit is more accurately recorded.

If students referred to an incorrect principle they received a one mark deduction, but were still rewarded for an appropriate explanation. The most common incorrect principle identified was the 'matching' principle. This principle has not been part of the course for four years, and teachers must avoid using this term.

2.2.3

Marks	0	1	2	3	4	5	Average
%	20	8	8	12	21	32	3.2

KB PETROL SUPPLIES STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDED 30 JUNE 2007

	\$	\$
Revenue		
Sales		555 000
Less Cost of Goods Sold		
Cost of Sales		350 000
Gross Profit		205 000
Plus Stock Gain		1 400
Adjusted Gross Profit		206 400
Discount Expense	700	
Administration Expense	10 000	
Interest Expense	1 000	
Wages Expense	87 200	
Depreciation Expense – Equipment	15 000	
Rent Expense	24 000	137 900
Net Profit		68 500

This question was handled reasonably well, although some students used unadjusted amounts from the worksheet in Question 2.2.1.

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One mark was allocated to the calculation of Gross Profit and a further mark for the Adjusted Gross Profit. The remaining three marks were allocated to the six expenses. Each correct pair of expenses was awarded one mark.

2.2.4

Marks	0	1	2	Average
%	52	32	16	0.7

Discount Expense is treated as an expense item because it is a:

- sacrifice/loss/consumption of future economic benefit
- reduction in inflows that will decrease assets and decrease Owner's Equity.

It has been pointed out in previous Assessment Reports that rote learned answers are not always appropriate and students should consider the item being examined. Discount Expense does not impact upon liabilities and therefore such a response was not appropriate. In this case it attracted a one mark deduction.

Many students were able to identify the loss/sacrifice of future economic benefit and the subsequent reduction in assets. Many students failed to gain the second mark by stating that the expense results in a reduction in assets **and** a reduction in Owner's Equity.

Students were able to substitute Debtors for assets and Net Profit for Owner's Equity. A reduction in Bank was not accepted because Discount Expense is a non-cash item.

2.2.5

Marks	0	1	2	3	Average
%	24	13	32	32	1.8

KB PETROL SUPPLIES STATEMENT OF FINANCIAL POSITION (extract only) AS AT 30 JUNE 2007

	\$	\$
Current Liabilities		
Creditors	35 000	
Bank Loan	10 000	
Accrued Wages	1 200	46 200

Students were awarded one mark for each correct item.

Students generally managed to identify two items. In questions such as this, the mark allocation should serve as a guide: three marks indicated that three items were required. The Answer Booklet should also be used as a guide: it is standard practice for each report and/or record to provide one line for each item/entry plus one 'spare' line.

Those students who identified only two items but did not receive two marks tended to report the whole amount of the Loan. The other common problem was that students reported amounts without taking into consideration the adjustments made in Question 2.2.1. As a result of this, students did not lose marks if they used consequential amounts from 2.2.1.

2.3.1

Marks	0	1	2	3	4	5	Average
%	11	4	4	6	18	56	4.0

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Stock Item: Unleaded Fuel

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
1 July	Balance							12 000 15 000	1.00 1.05	27 750
2 July	Receipts 22–151				7 000	1.00	7 000	5 000 15 000	1.00 1.05	20 750
3 July	Receipts 152–246				5 000 1 500	1.00 1.05	6 575	13 500	1.05	14 175
4 July	Memo 16				40	1.05	42	13 460	1.05	14 133
4 July	Memo 17				60	1.05	63	13 400	1.05	14 070
5 July	Inv C47	20 000	1.10	22 000				13 400 20 000	1.05 1.10	36 070
6 July	Invoices 64–85				9 500	1.05	9 975	3 900 20 000	1.05 1.10	26 095

Students were awarded one mark for each correct line, with the two Memos considered together.

Students generally used document numbers, which was pleasing and demonstrated that previous Assessment Reports had been considered. However, a number of students still used the Selling Price when recording Unit Cost, which was a concern. This error attracted a one mark deduction.

2.3.2

Marks	0	1	2	3	4	Average
%	26	13	23	14	24	2.1

Memo 16 is reported as drawings because:

- it represents a withdrawal by the owner from the business for personal use/family use
- it represents a reduction in Owner's Equity
- the owner is a separate entity.

Memo 17 is reported as:

- a vehicle expense
- a petrol expense
- an expense, consumed for the business purposes
- a sacrifice of economic benefits
- as other expense in the Statement of Financial Performance.

Many students either did not read the question carefully or did not fully understand the difference between recording and reporting. Many students discussed how the transactions would be recorded and then proceeded to incorrectly identify Ledger Account titles.

2.4

Marks	0	1	2	3	Average
%	35	15	29	22	1.5

Point of Sale

This method is more appropriate because:

- a significant number of credit sales are recorded.
- it provides more accurate reporting of revenue earned with expenses incurred

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- it provides a more accurate measure of profit.

One mark was awarded for correctly identifying 'Point of Sale' as the most appropriate revenue recognition method. The explanation that followed needed to identify the accuracy of this method and the appropriateness of this method given the amount of credit sales. If students had made use of previous Assessment Reports then this question should have presented no problems. Many students failed to identify both points and tended to focus on the existence of credit sales.

If students identified 'Point of Cash Transfer', marks were allocated according to the explanation; for example, it is a simpler method, the majority of sales are cash, the type of product sold, it is a conservative approach. In this situation a maximum of two marks were awarded.

2.5.1

Marks	0	1	2	3	Average
%	35	8	15	42	1.7

KB PETROL SUPPLIES STATEMENT OF CASH FLOWS – JULY 2007 Financing Activities Extract

Item	Inflow/Outflow	Amount \$
Capital	Inflow	14 000
Drawings	Outflow	5 000
Bank Loan	Outflow	10 000

One mark was awarded for each completed line. The most common error was to identify the Bank Loan as an inflow. Other errors included incorporating alien items or recording a range of Operating or Investing Cash Flows.

Students who used arrows to identify the flow were awarded a maximum of one mark.

2.5.2

Marks	0	1	2	3	4	Average
%	56	13	18	9	5	1.0

Examples

- Capital
- Receipts from Debtors and Cash Sales are greater than payments to creditors
- Discount Expense
- Depreciation of Equipment
- Rent Expense

Explanation

- Capital increases Cash at Bank but has no impact on Net Profit as it is not a revenue item.
- Discount expense, Depreciation and Rent Expense all decrease net profit but do not represent a cash outflow, so have no effect on Bank.

Assessors accepted a range of responses to this question; however, it was still the most poorly handled question on the examination. This suggests that although students have a rudimentary understanding of the differences between cash and profit, they are not able to adequately articulate their response.