

## Accounting June Written examination 1

### GENERAL COMMENTS

Students demonstrated sound examination practice for the June mid-year examination, displaying workings, attempting all questions and showing dollar amounts in theory questions. Some students used a mix of pen for theory and pencil for practice questions and this is acceptable.

Highly structured questions, such as tables, were well answered. Areas that require greater understanding by students include, recording in the general journal, providing reasons for reporting, the bank reconciliation process and the understanding of accounting information.

When completing practical questions, students are reminded that it is important to total journals, use correct titles in records and reports and record individual transactions in the ledger when requested.

### SPECIFIC INFORMATION

Question	Marks	%	Comments
<b>Question 1</b>	<b>1.1</b>		<b>Calculation of owner's equity</b>
	1/1	63	This was a simple calculation for the correct answer of \$46 500. While students may have anticipated a general journal entry, the most common error appeared to be the adding rather than deducting accumulated depreciation to assets.
	0/1	37	
	<b>1.2.1</b>		<b>Stock cards</b>
	1/1	75	The recording of the purchase of stock required the correct date, details, the entry at cost in the 'in' column and balance. The most common error was to use the selling price rather than cost price. Although the consequential errors following this error were not penalised they still created some problems for students. The source document invoice and number in the 'details' column were the preferred response; however, the use of 'purchases' was accepted given this is a subsidiary record.
	0/1	25	
	<b>1.2.2</b>		<b>Stock loss</b>
	1/1	69	The sale on the 28 June required the use of stock at two different values, 40 units at \$50 and 60 units at \$60. Marks tended to be lost in the preparation of the balance column, with students not acknowledging the consequence of their entry in the 'out' column. The sequencing of balance items did not matter in this question as the business used identified cost.
	0/1	31	
	<b>1.3.1</b>		<b>Stock loss</b>
	1/1	71	The physical stock take revealed that the business had made a 'stock loss'. Students recording a stock gain as a consequence of an error in 1.2.1 were not penalised. The most frequent error in this question was a failure to make any entry in the 'details' column. This seemed particularly so when the 'stock gain' was recorded.
	0/1	29	
	<b>1.3.2</b>		<b>Stock loss</b>
	1/1	85	Most students responded with possible reasons for stock loss apart from 'theft'. The performance in this question correlated closely with previous responses.
	0/1	15	
	<b>1.4</b>		<b>Calculation of cost of goods sold</b>
1/1	58	The correct answer was \$5 600. Assessors had to go back to the stock card where other responses were provided and, when consequential, allowed a mark. The most common error was to add the stock loss of \$500 to the cost of goods sold and give a figure of \$6 100.	
0/1	42		
<b>1.5</b>		<b>General journal relating to stock card entries</b>	
0/3	35	Incorrect use of titles featured prominently in the loss of marks. Instead of 'creditors control' students often used the name of the particular creditor 'Malson' and this was marked incorrect. Many students neglected the cost part of the sale of goods and only made the entry for the sale – debit 'Debtors control' and credit 'Credit sales'. Reversing the debit and credit entries was common. These responses reflect the difficulty students have with recording in the General journal.	
1/3	22		
2/3	16		
3/3	27		
<b>1.6.1</b>		<b>The accounting equation</b>	
0/3	6	Students had to state the effect of drawings of stock on the accounting equation. This was a structured question and students responded well. The correct answer was that assets and owner's equity were overstated with no effect on liabilities. Students who responded with 'understated' instead of 'overstated' still gained some marks. Some students fail to apply the 'seesaw' effect and incorrectly stated that assets moved in the opposite direction to owner's equity.	
1/3	7		
2/3	21		
3/3	66		
<b>1.6.2</b>		<b>Accounting principles</b>	

	0/2 1/2 2/2	52 7 41	The correct response was the 'entity principle'. The most common alternative response was the principle of materiality and this was incorrect. Most students were able point out that the business and the owner are separate entities and that the recording of the drawings is necessary.
	<b>1.7.1</b> 0/3 1/3 2/3 3/3	9 19 27 45	<b>Special journals</b> The first entry was in the Purchases journal and was well answered apart from responses where incorrect titles such as 'purchases' or 'Malson' were used.  Two entries were required for the Cash receipts journal and titles were less of a problem. More likely errors included failure to record in the 'Bank' column and the recording of entries in the correct classified columns. The recording of the receipt of cash for capital in the debtor's column was an example of this type of error. Totals were required for the cash receipts journal.
	<b>1.7.2</b> 0/3 1/3 2/3 3/3	26 20 36 19	<b>Posting to the general ledger from the journals</b> This question was not well answered. Students were required to total and post the purchases journal and the cash receipts journal to the general ledger accounts provided. Students erred in their debit/credit entries, titles and matching accounts. Students failed to connect the ledger accounts provided and listed accounts in the details that did not correspond with the transaction involved. Many students itemised the entries in the Bank account and lost a mark. This question exemplifies the need for reinforcement of skills with consistent practice.
<b>Question 2</b>	<b>2.1</b> 0/3 1/3 2/3 3/3	23 45 22 10	<b>General journal entries</b> Students were required to make two entries in the General journal. The first was a correcting entry and was fairly well handled. The correct entry was to debit Advertising expense and credit Administration expense. Students who erred in this question reversed the entries or used incorrect titles. The second part was, for most students, far more difficult. Students had to determine the amount of interest for the reporting period. Many students duplicated the ledger account titles having 'interest expense' and 'interest' or incorrect matching accounts such as 'bank' or 'prepaid interest'.
	<b>2.2.1</b> 0/1 1/1	55 45	<b>Balance day adjustments – determination of amount</b> Students were required to calculate the rent expense for a year, with the amount of rent payable changing on January 1. Students who showed their workings and prepared timelines had a better chance of success in this difficult question. The correct answer was \$10 800. Students who misread the question and calculated the changed rent from December 1 arrived at the incorrect answer of \$11 000.
	<b>2.2.2</b> 0/1 1/1	83 17	A follow up question with students being required to find the rent paid. The incorrect answer for the previous question of \$11 000 was the correct answer for this question. These two questions revolved around reading skills. Many students determined that the reporting period was six months rather than 12 months.
	<b>2.2.3</b> 0/2 1/2 2/2	29 25 45	<b>Classification</b> Most students recognised that Prepaid rent was a current asset. Answers such as 'asset' or 'prepaid rent' were not accepted. It was possible for students to miss the first part of the question and still successfully state the justification that the item would provide future economic benefit to be used up in the next 12 months.
	<b>2.3</b> 0/2 1/2 2/2	34 34 32	<b>Calculation of purchase price of a non current asset</b> This is a traditional question with a twist. Students had to reverse the process used to determine depreciation and find the original value of the delivery van. By using the straight line method, allowing for the nine months for the depreciation and adding the residual value students arrived at a purchase price of \$35 000. Students had the chance to score 1 mark by either calculating the figure of \$30 000 ( $\$4\,500 \times 12/9 \times 5$ years) or by adding \$5 000 (residual amount). Those students only gaining 1 mark were far more likely to show the figure of \$5 000.
	<b>2.4</b> 0/4 1/4 2/4 3/4 4/4	23 16 19 22 20	<b>Profit and loss statement</b> Marks for this question were lost in various ways, with the most common being the failure to add 'Freight in' to COGS. Some students did recognise it as a buying expense but deducted it from COGS. Most students included this item as a general expense and lost a mark. It was necessary to determine Gross profit and show the title itself. Gross margin was not accepted. Using the corrected amounts for advertising and administrative expenses gained a mark. Students were not penalised for consequential errors. The remaining expenses gained a total of 1 mark, and this was lost when students omitted interest expense, depreciation items,

		rent and wages expense. The interest expense was the most common item not included.
<b>2.5</b>		<b>Current liabilities</b>
0/2	31	There were four items to be recognised as current liabilities and the 2 marks were awarded to 'accrued expenses' and 'loan'. The accrued expenses were complicated in that the interest expense of \$1 867 had to be added to the existing accrued expense of \$400. Students had to determine that \$8 000 was the current component of the loan. This was a five year loan for \$40 000. A number of students allocated the full \$40 000 as a current liability and did not gain a mark.
1/2	46	
2/2	23	
<b>2.6</b>		<b>Functional classification</b>
0/2	44	Students were required to explain one benefit of using functional classification when preparing a Profit and Loss report. Students needed to focus on the benefit in terms of planning or control. It was most important that the response related to the Profit and Loss report and was not simply a general statement about classification.
1/2	32	
2/2	23	
<b>2.7.1</b>		<b>Profitability</b>
0/2	48	Students needed to emphasise that this ratio was a measure of the efficiency of use of the assets of the business. Students had to go on and explain how the efficiency had a direct bearing on the success of the business.
1/2	37	
2/2	15	
<b>2.7.2</b>		<b>Profitability</b>
0/2	40	A number of ratios were accepted as indicators of profitability including 'return on investment', 'net profit ratio', 'gross profit ratio' or 'expense to sales'. Students then had to explain that particular ratio. Inability to connect the ratio and the explanation would lose a mark. Many students provided liquidity ratios such as working capital and these were not accepted.
1/2	25	
2/2	35	
<b>2.8.1</b>		<b>General ledger and journal entries</b>
0/1	48	Students with the debits and credits around the wrong way or using the wrong amount failed to gain the mark.
1/1	52	
<b>2.8.2</b>		<b>General ledger and journal entries</b>
0/3	54	There two responses acceptable for this question. The first response allowed a debit to COGS and a credit to Stock control of \$350. The selling aspect of the transaction required a debit to both Revenue received in advance \$200 and Debtors control \$300 matched by a credit to sales revenue of \$500. The second approach allowed a debit Revenue received in advance and a credit to Credit sales of \$200 followed by a debit to Debtors control and a credit to Credit sales of \$300.
1/3	21	
2/3	11	
3/3	15	
<b>Question 3</b>		<b>Bank reconciliation process</b>
<b>3.1.1</b>		<b>Bank reconciliation process</b>
0/2	73	Students were required to calculate the balance of the Cash at Bank. Students who attempted this question without reconstructing the ledger account had little chance of getting the correct answer. In determining cash receipts, students had to add \$40 interest and \$100 from an incorrect entry in the cash receipts journal. The entry on 22 June should have been \$500, not \$600. Many students treated the \$600 as a direct deposit. This lead to consequential errors in the Bank reconciliation statement with students treating the \$500 as a deposit not banked. It was also necessary to add \$15 'bank charges' to cash payments for transfer to the Cash at bank account.
1/2	15	
2/2	13	
<b>3.1.2</b>		<b>Bank reconciliation process</b>
0/3	49	Preparation of the Bank reconciliation statement: the confusion relating to the incorrect amount for the June 22 entry continued in this question. The unrepresented cheque (No. 7621) from May had to be carried over to June, a point overlooked by many students. Presentation skills such as showing whether the bank statement and bank account have a debit or credit balance are important in these types of questions.
1/3	18	
2/3	20	
3/3	13	
<b>3.1.3</b>		<b>Bank reconciliation process</b>
0/1	35	This question required students to state one purpose of preparing a Bank Reconciliation Statement. The more frequent responses include 'to detect fraud', 'show discrepancies between our records and those of the bank' and to 'update the business records'. In technical terms these responses are why a business follows the process rather than actually prepare the statement; however, assessors did accept these responses.
1/1	65	
<b>3.2.1</b>		<b>Statement of cash flows</b>
0/3	18	The correct response for this question was 'operating' (outflow), financing (inflow) and financing (outflow).
1/3	18	
2/3	23	
3/3	41	

<b>3.2.2</b>		Many students confused investing with financing and wrote about borrowing funds for different activities. Students who focused on the buying and selling of non current assets, including property and shares, were awarded full marks.
0/2	47	
1/2	20	
2/2	33	
<b>3.3</b>		<b>Cash versus profit</b>
0/2	66	There was a constraint to this question. The business only operated on cash terms and had no facilities for credit transactions. Responses relating to the difference between cash received from debtors and credit sales received no marks. This also applied to responses relating to payments to creditors and cost of sales. Other answers such as cash drawings, the repayment of a loan, buying of a non current asset and differences resulting from balance day adjustments were marked correct.
1/2	24	
2/2	10	
<b>3.4</b>		<b>Benefits of preparing a statement of cash flows</b>
0/2	44	Some responses were too general and did not relate to the benefits of actually producing a Statement of Cash Flows. Other responses discussed the benefits of the Profit and Loss statement, which were irrelevant.
1/2	43	
2/2	12	

**Solutions**

**Question 1 – Malson Traders**

**1.1**

<b>Calculation</b>	
Assets – Liabilities	= Proprietorship
\$62 150 – \$15 650	= \$46 500
Owner’s Equity \$46 500	

1 mark

**Stock card for 1.2.1, 1.2.2 and 1.3.1**

**Bamboo Blinds – model 11332 EX**

Date	Details	IN			OUT			BALANCE		
		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
2002			\$	\$		\$	\$		\$	\$
June 1	Balance							80	50	4 000
27	Inv 68	60	60	3 600				80	50	4 000
								60	60	3 600
28	Inv 233				40	50	2 000	40	50	2 000
					60	60	3 600			
30	Stock Loss				10	50	500	30	50	1 500

1 + 1 + 1 = 3 marks

**1.3.2 Other than theft, state one possible reason for a stock loss**

Reason	Breakages, Clerical error in stocktake, Clerical error in stock recordings Under supply from supplier, Over supply to customer.
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1 mark

**1.4**

<b>Calculation</b>	
\$2 000 + \$3 600 = \$5 600 (do <b>not</b> include stock loss)	
Cost of Goods Sold \$5 600	

1 mark

**1.5**

**GENERAL JOURNAL**

Date	Accounts	Post. Ref.	Debit \$	Credit \$
Jun 27	Stock control		3 600	
	Creditors control			3 600
Jun 28	COGS		5 600	
	Stock control			5 600
	Debtors control		10 000	
	Credit sales			10 000

1 + 2 = 3 marks

## 1.6.1

	Effect (Overstated/Understated/No Change)
Assets	Overstated (Stock Control)
Liabilities	No Change
Owner's Equity	Overstated

3 marks

## 1.6.2 State the accounting principle that requires the accountant to recognise this transaction

<b>Accounting Principle</b>	Entity
<b>Justification</b>	That the business and the owner are separate entities for recording and reporting purposes, and that any transactions between the business and the owner must be captured and recorded in the accounting records of the business.

2 marks

## 1.7.1

## PURCHASES JOURNAL

PJ 1

Date 2002	Particulars	Post. Ref.	Invoice No.	Amount \$
July 5	Creditor control – BAWG Ltd.		109	1 000
				<i>1,000</i>

## CASH

RECEIPTS  
CRJ1

## JOURNAL

(extract)

Date 2002	Particulars	Post. Ref.	Rec. No.	Bank	Cash Fees \$	Debtors \$	Sundries \$
July 8	Debtors Control – Blind Specialists		26	10 000		10 000	
July 14	Capital		27	5 000			5 000
	Total			<i>15,000</i>		<i>10,000</i>	<i>5,000</i>

3 marks

## 1.7.2

## STOCK CONTROL

CA 1

Date 2002	Particulars	Post. Ref.	Amount \$	Date 2002	Particulars	Post. Ref.	Amount \$
July	Creditor Control	PJ1	1 000	July			

## CREDITOR CONTROL

CL 1

Date 2002	Particulars	Post. Ref.	Amount \$	Date 2002	Particulars	Post. Ref.	Amount \$
July				July	Stock Control	PJ1	1 000

## BANK

CA 2

Date 2002	Particulars	Post. Ref.	Amount \$	Date 2002	Particulars	Post. Ref.	Amount \$
July	Cash Receipts	CRJ1	15 000	July			

**DEBTORS CONTROL**

**CA 3**

Date 2002	Particulars	Post. Ref.	Amount \$	Date 2002	Particulars	Post. Ref.	Amount \$
July				July	Bank	CRJ1	10 000

**CAPITAL**

**P**

**1**

Date 2002	Particulars	Post. Ref.	Amount \$	Date 2002	Particulars	Post. Ref.	Amount \$
July				July	Bank	CRJ 1	5 000

3 marks

Total 20 marks

**Question 2 – Bendigo Desks**

**2.1**

**GENERAL JOURNAL**

Date 2002	Accounts	Post. Ref.	Debit \$	Credit \$
Jun 30	Advertising Expense		100	
	Administration Expense			100
	Interest Expense		1 867	
	Accrued Expenses			1 867
	$\$40\,000 \times 8\% \times \frac{7}{12}$ months			

1 + 2 = 3 marks

**2.2.1**

<p><b>Calculation</b></p> <p>6 months at \$800 = \$4 800</p> <p>6 months at \$1 000 = \$6 000</p> <p align="right">Rent Expense    \$10 800</p>
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1 mark

**2.2.2**

<p><b>Calculation</b></p> <p>5 months at \$800 = \$4 000</p> <p>7 months at \$1 000 = \$ 7000</p> <p align="right">Rent Payment    \$11 000</p>
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1 mark

**2.2.3 How would Prepaid Rent be classified in the Balance Sheet?**

<b>Classification</b>	Current Asset (Prepaid Rent)
<b>Justification</b>	Represents a future economic benefit to the business to be used up in the next 12 months

2 marks

**2.3**

<p><b>Calculation</b></p> <p>Step 1: <math>\\$4\,500 \times \frac{12}{9}</math> months = \$6 000 depreciation per year.</p> <p>Step 2: <math>\\$6\,000 \times 5</math> years + \$5 000 residual = \$35 000</p> <p align="right">Purchase Price    \$35 000</p>
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2 marks

2.4

## BENDIGO DESKS

## PROFIT AND LOSS STATEMENT FOR YEAR ENDING 30 JUNE 2002

Sales Revenue		103 600
less COGS	34 000	
Freight in	<u>2 333</u>	<u>36 333</u>
		67 267
<b>Gross Profit</b>		
Less Administration Expense	3 100	
Advertising Expense	1 800	
Depreciation on Delivery van	4 500	
Depreciation on Equipment	4 000	
Interest on Loan	1 867	
Rent Expense	10 800	
Wages Expense	<u>19 000</u>	<u>45 067</u>
<b>Net Profit</b>		<b><u>22 200</u></b>

4 marks

2.5

## BENDIGO DESKS

## BALANCE SHEET(extract only) AS AT 30 JUNE 2002

<b>Current Liabilities</b>		
Creditors Control	14 600	
Accrued Expenses (1867+400)	2 267	
Revenue Received in Advance	2 000	
Loan	8 000	26 867

2 marks

## 2.6 Explain one benefit of using functional classification when preparing a P/L Report

<b>Explanation</b>	In order to help encourage control over certain expense groups and allow management control and accountability of these expense groups. Planning – determine areas of spending to promote the business
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2 marks

## 2.7.1 Explain why the Return on Total Assets is used as an indicator of profitability

<b>Explanation</b>	Measure of efficiency of use of assets of the business. Business assets are a main contribution to business revenues and ultimately profits and their effective/ineffective use have a direct bearing on the success or otherwise of the business.
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2 marks

## 2.7.2 State and explain one other indicator of profitability the accountant may use

<b>Indicator</b>	Return On Investment OR Gross Profit Ratio OR Net Profit Ratio OR Net Profit/Expenses
<b>Explanation</b>	Measures return the owner receives on their investment in the business. Can help owner decide whether to remain in that business or elect to put capital to more efficient use.

2 marks

2.8.1

## GENERAL LEDGER (extract only) of BENDIGO DESKS

## BANK

Date 2002	Particulars	Post. Ref.	Amount \$	Date 2002	Particulars	Post. Ref.	Amount \$
1 July	Balance		26 650				
1 July	Revenue Received in Advance		200				



**REVENUE RECEIVED IN ADVANCE**

Date 2002	Particulars	Post. Ref.	Amount \$	Date 2002	Particulars	Post. Ref.	Amount \$
				1 July	Balance		2 000
				1 July	Bank		200

1 mark

**2.8.2 GENERAL JOURNAL**

Date 2002	Accounts	Post. Ref.	Debit \$	Credit \$
Aug 4	COGS		350	
	Stock Control			350
Aug 4	Revenue Received in Advance		200	
	Debtors Control		300	
	Sales Revenue			500
<b>OR</b>	<b>Revenue Received in Advance</b>		<b>200</b>	
	<b>Credit Sales</b>			<b>200</b>
	<b>Debtors Control</b>		<b>300</b>	
	<b>Credit Sales</b>			<b>300</b>

3 marks

**Question 3 – Cash Controllers**

**3.1.1**

<b>Calculation</b>	
Balance (1/6/02)	11 400 Dr
Plus Receipts	2 550 + 100 + 40
Less Payments	<u>6 600 + 15</u>
Balance (30/6/02)	<u><b>7 475</b></u>
Cash at Bank \$7 475	

2 marks

**3.1.2 CASH CONTROLLERS**

**BANK RECONCILIATION STATEMENT AS AT 30 JUNE 2002**

Balance per Bank Statement (30/6)		Cr 7 975
plus Deposits not banked		800
		8 775
less Unpresented Cheques		
# 7621	400	
# 7624	900	1 300
Balance per Cash a Bank Ledger		<u><b>7 475</b></u>

3 marks

**3.1.3 State one purpose of preparing a Bank Reconciliation Statement**

<p><b>Purpose</b> Identify errors in recording of cash between bank and business.          Identify long outstanding unpresented cheques/deposits not banked.          Identify direct debits/credits to bank account.</p>
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1 mark

**3.2.1**

	<b>Operating/Investing/Financing</b>	<b>Inflow/Outflow</b>
<b>Interest on Overdraft</b>	Operating	Outflow
<b>Additional Capital</b>	Financing	Inflow
<b>Repayment of Loan</b>	Financing	Outflow

3 marks

**3.2.2 Explain what is meant by Investing Items**

Cash proceeds from the disposal or sale of an asset
Cash outflows for the purchase of non current assets

2 marks

**3.3 State two transactions that would explain why there could be a decrease in net cash inflow whilst having a significant increase in Net Profit**

<b>Transaction 1</b>	Non current asset purchases have been made with cash. Prepaid Expenses Credit Sales exceed Receipts from debtors
<b>Transaction 2</b>	Owner has withdrawn large amounts of cash Loan (principal) payments have been made. COGS is less than Payments to Creditors

2 marks

**3.4 State two benefits of preparing a Cashflow Statement**

<b>Benefit 1</b>	* To allow the business to meet obligations as they fall due. * Assess how business has generated cashflow and how it might continue to do so.
<b>Benefit 2</b>	* Consider how business might finance expansion * Assess trends on the way the business finances operations and evaluate ways of alternative finance sources.

2 marks

Total 15 marks