



GENERAL COMMENTS

The 2012 November examination was the last 90-minute examination to be completed by Accounting students. This year was the last year when both a June and November examination were completed. From 2013 onwards, one two-hour examination will be scheduled, as part of the November examination period. The November 2012 examination followed the format set by the June examination. This examination consisted of a total of 11 questions, with some comprising several parts. It appears that students learned some valuable lessons from their June experience. Most students attempted all questions on this examination, providing evidence of good time management.

Teachers and students should be aware that while the examination may test a representative sample, all key knowledge and skills that underpin the units are examinable, and students should be prepared for questions from any of these areas.

The examination included questions requiring ‘discussion’ and ‘analysis’. Students are expected to prepare detailed written responses to these types of questions. Responses using full sentences are usually more successful in allowing students to convey the information and ideas expected. Very short responses or simply listing a few dot points usually does not result in high marks.

Students are now generally well versed in using the correct titles in journals, ledger accounts and accounting reports. However, there were some unusual abbreviations used by some students. It is strongly recommended that students revise all recording and reporting using acceptable terms and titles. When a control system is in place, students should use Creditors Control and Stock Control as the titles of the relevant general ledger accounts. However, when making entries in a General Journal and subsidiary ledger accounts, these titles are clearly not acceptable. Rather, the name of the actual debtor or creditor should be used instead. The correct title for the GST general ledger account is GST Clearing and not GST Control, GST Tax or ATO (Australian Taxation Office). Students are again advised that the account for Accumulated Depreciation must have the name of the non-current asset attached to it when preparing journal and ledger account entries.

Two issues that arose from this examination should be noted by all Accounting students. Firstly, ‘discuss’ questions weighted with five or six marks require detailed responses and not just two or three lines of writing. The second issue relates to reading questions carefully. It appears that many students are rushing through parts of the examination and making fundamental errors in their haste to finish the examination. For example, in Question 7 of this examination, where students had to simply calculate the cost of stock on hand. Many students calculated Net Realisable Value or a Stock Write Down amount when all they had to do was work out the cost of stock on hand. Students should read every question carefully so that they do not waste time performing unnecessary calculations. It was disappointing that some students missed out on marks not because of lack of knowledge, but simply because they did not read each question carefully. All students are advised to take note of this for future examinations.

SPECIFIC INFORMATION

For each question, a suggested answer(s) is provided. In some cases, the answer given is not the only answer that could have been awarded marks.

Question 1

1a.

Marks	0	1	2	3	4	Average
%	15	8	6	13	58	2.9

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Nov 18	Sales Returns	500			
	GST Clearing	50			
	Debtors Control		550		
	Lyall’s Imports				550
	Stock Control	250			
	Cost of Sales		250		

This question proved to be a good starting point for many students, with many scoring full marks.

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One mark each was allocated for

- the Sales Returns entry
- the GST Clearing entry
- both Debtors Control and the entry to Lyall's Imports
- the double entry to Stock Control and Cost of Sales.

Some students treated the transaction as a Purchases Return, rather than a Sales Return. Students are advised to always check the name of the business under consideration to ensure that they are recording items correctly.

A common error was to record the return at \$1000, plus GST of \$100. This showed that some students did not realise that a credit note issued to a debtor always shows the selling price and not the cost price of the return.

1b.

Marks	0	1	2	3	Average
%	13	28	25	34	1.8

Effect On	Increase/Decrease/No Effect	Amount
Revenues	Decrease	\$500
Expenses	Decrease	\$250
Net Profit	Decrease	\$250

One mark was awarded for each correct line in the table. Some students recorded the decrease in revenue correctly, but failed to recognise the effect of the return on Cost of Sales, which causes a decrease in expenses for the period.

1c.

Marks	0	1	2	Average
%	44	39	17	0.8

Lyall's Imports

Cash Payments Journal

Date 2012	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Sundries	GST
26 Nov	Modern Seating	27	1 078	22	1 100			

This question proved to be problematic for many students.

The first issue students had to deal with was to move from accounting for Modern Seating to accounting for Lyall's Imports. Although the question specifically stated that the entry was to be made in the journal of Lyall's Imports, some students were obviously trying to make a correct entry for Modern Seating. Students are reminded once again that all questions must be read carefully before responses are prepared.

The second issue for students was the calculation and recording of the discount. Students often have difficulty with this procedure and are advised to revise this area of the study carefully.

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Question 2

2a.

Marks	0	1	2	3	4	Average
%	16	7	8	21	49	2.8

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Nov 29	Creditors Control	495			
	Will's Washers			495	
	GST Clearing		45		
	Stock Control		450		
	Return of 1 deluxe washing machine due to damage (CN S72)				

One mark each was allocated for

- the entries to Creditors Control and Will's Washers
- the entry to GST Clearing
- the entry to Stock Control
- the narration (including the relevant document number).

This question was handled reasonably well by most students. However, some students did not achieve full marks because of errors such as

- incorrectly naming Will's Washers as Whitegoods
- reversing the debit and credit entries
- omitting the narration completely
- using incorrect amounts in the journal entry.

2b.

Marks	0	1	2	3	4	5	6	7	Average
%	21	8	7	10	12	12	14	16	3.5

Creditors Control

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Nov 30	Bank/Discount Revenue	15 500	Nov 1	Balance	27 000
	Stock Control/GST Clearing	495	Nov 30	Stock Control/GST Clearing	5 830

This question was broken into two distinct parts, with the general ledger account being allocated four of the seven marks available. These four marks were allocated as follows.

- one mark for the Bank/Discount Revenue entry
- one mark for the debit entry to Stock Control/GST Clearing
- one mark for the credit entry to Stock Control/GST Clearing
- one mark for the correct dates in the accounts

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Creditor – Frieda’s Freezers

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Nov 16	Bank	2 500	Nov 1	Balance	4 500
	Bank/Discount Revenue	4 000	Nov 30	Stock Control/GST Clearing	2 200

In the subsidiary ledger account, a further three marks were allocated.

- one mark for the opening balance of the account
- one mark for the two debit entries
- one mark for the credit entry

As this question focused on the double entry process, attention needed to be paid to the details of each entry.

Full titles were required in the cross-reference section as these titles identify the actual double entry being created. Therefore, students should ensure that in such questions, full titles are used for all entries. Attention to detail was also required in the subsidiary ledger account as one entry on the debit side was simply ‘Bank’, while the second entry had to be ‘Bank/Discount Revenue’. It was disappointing to note that some students failed to score on this question. Revision of ledger account templates should be a priority for all Accounting students.

2c.

Marks	0	1	2	3	Average
%	26	15	16	42	1.8

Explanation: The asset Stock is decreased by \$450 as the goods have been returned to the supplier. The liability Creditors is decreased by \$495 as the amount is no longer owed to the supplier. If the GST Clearing account has a credit balance, this liability will increase by \$45 as the business can no longer claim back the GST on these goods.

This question was well handled by the majority of students. Most students correctly identified the three effects on the balance and provided a full explanation as to why each item changed and by what dollar amount. Poorer responses tended to refer to assets or liabilities in general and did not include any detail about what happened. Students are reminded that when asked for an explanation, as much detail as possible should be included in their responses.

Question 3

3a.

Marks	0	1	2	Average
%	23	20	57	1.4

Calculation	
Units sold = 1 000 × 1.15 = 1 150	
Unit price	\$200
	\$230 000
Budgeted Cost of Sales for the year ending 30 June 2013	\$230 000

This question was well handled by the majority of students. Some students correctly identified \$200 as the unit cost price, but failed to correctly determine the increased number of units expected to be sold.

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3b.

Marks	0	1	2	3	4	5	6	7	Average
%	14	7	12	21	30	9	5	2	3

Central Enterprises Budgeted Income Statement for the year ending 30 June 2013

	\$	\$
Revenue		
Cash Sales	120 750	
Credit Sales	483 000	603 750
Less Cost of Sales		230 000
GROSS PROFIT		373 750
Less Other Expenses		
Bad Debts	9 660	
Depreciation of Equipment	19 000	
Office Expenses	26 800	
Interest Expense	200	
Wages Expense	164 750	220 410
NET PROFIT		153 340

The seven marks available for this question were allocated as follows.

- one mark for the Sales items, with the correct total
- one mark for Cost of Sales, with the calculation of Gross Profit
- one mark for each of the five expense items

The question provided a variety of responses, with most students achieving three or four marks out of the total of seven. Common errors included

- incorrectly calculating the depreciation amount
- incorrectly determining the Office Expenses amount
- omitting the Interest expense completely
- incorrectly calculating Wages Expense
- using incorrect titles (for example, 'Depreciation Expense')
- including alien items (for example, drawings) or using incorrect formatting (for example, adding 'Cash at Bank' at the bottom of the report).

Students are strongly advised to review the format of the various accounting reports as some students appeared to have combined the various reports into one statement.

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3c.

Marks	0	1	2	3	4	Average
%	24	8	10	19	38	2.4

Debtors Control

Date	Cross-reference	Amount	Date	Cross-reference	Amount
July 1	Balance	52 000	June 30	Bank	500 000
June 30	Credit Sales/GST Clearing	531 300	Nov 30	Bad Debts	9 660
				Balance	73 640
		583 300			583 300

With a total of four marks available, marks were allocated as follows.

- one mark for the opening balance
- one mark for the Credit Sales/GST Clearing entry
- one mark for the Bank entry
- one mark for the Bad Debts entry

This question was well handled by most students. However, some students did not score any marks for this question. These students appeared not to know the basic template of the account. Students are reminded that historical accounts and budgeted accounts follow the same template exactly. Students should know their templates and be prepared to make entries in a reconstruction in order to find 'missing information'.

3d.

Marks	0	1	2	Average
%	44	23	33	0.9

Central Enterprises

Budgeted Cash Flow Statement (extract) for the year ending 30 June 2013

	\$	\$
Cash Flow from Financing Activities		
Financing Outflows		
Loan Repayment	(4 000)	
Drawings	(60 000)	
NET CASH USED IN FINANCING ACTIVITIES		(64 000)

One mark was allocated for each of the two cash flows. Students had to identify that the interest expense should not be reported as a Financing Outflow and therefore had to deduct the \$200 in order to get \$4000. Students should also note that in a Cash Flow Statement it is a requirement that the report be completed with a summary statement, such as 'Net Cash used in Financing Activities'. All accounting reports should be finished with the appropriate totals and descriptions of key figures.

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3e.

Marks	0	1	Average
%	57	43	

Definition: Cash flows in relation to changes in the financial structure of a business; that is, changes in borrowings (loans) and owner's equity – both cash contributions and cash withdrawals

Some students confused 'financing activities' with 'investing activities' and subsequently talked about cash flows in relation to non-current assets. Students and teachers should be aware that students may be asked for definitions on any aspect of the study design.

Question 4

Marks	0	1	2	3	4	5	6	7	Average
%	12	15	12	8	10	12	13	18	

Cash Receipts Journal

Date 2012	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
June 28	Prepaid Sales Revenue	235	500					500	
July 9	J Hay	261	3 283	67	3 350				

Sales Journal

Date 2012	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
July 2	J Hay	121	1 500	3 000	350	3 350

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
June 30	Prepaid Sales Revenue	500			
	Sales Revenue		500		

The first three marks in Question 4 were allocated to the Cash Receipts Journal. One mark was for the Prepaid Sales Revenue entry, with two marks allocated to the receipts of cash from J Hay, including the appropriate discount expense.

Two marks were then allocated to the Sales Journal and two marks were available for the double entry in the General Journal.

This question produced a variety of responses, with common errors being made in the following areas.

- incorrectly recording GST on the deposit received on 28 June
- incorrectly calculating the discount expense
- recording the full sales amount of \$3500 in the Sales Journal, despite the fact that a deposit of \$500 had already been received
- omitting the adjusting entry for the prepaid revenue or using the incorrect dollar value for this entry

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Question 5

5a.

Marks	0	1	2	Average
%	30	26	44	1.2

Calculation	
Historical cost: $\$6\,400 + \$2\,200 + \$1\,000 = \$9\,600$	
$\$9\,600 \times 30\% = \$2\,880$ p.a. For 4 months: $\$2\,880 \times 4/12 = \960	
Depreciation for the year ended 30 June 2012	\$960

Students should have been prepared for a question on reducing balance depreciation as this was a new area of the current study design. This question required two separate processes to be undertaken. Students had to correctly determine the historical cost of the asset and then apply the depreciation rate for a period of four months. Some students experienced difficulty with one or both of these processes.

5b.

Marks	0	1	2	3	Average
%	29	42	7	22	1.2

MS Electronics Balance Sheet (extract) as at 30 June 2013

Non-current assets		
Photocopier	9 600	
Less Accumulated Depreciation	3 552	6 048

This question required students to take the information from their answer to Question 5a., calculate a further year's depreciation and then show how the asset would be reported at 30 June 2013. Unfortunately, some students did not take the required level of care when reading this question and simply prepared the Balance Sheet extract as at 30 June 2012. Reading financial information is a skill in itself and students are advised to read every question carefully if they are to give themselves the best chance of success.

5c.

Marks	0	1	2	3	4	5	6	Average
%	27	13	16	16	13	9	6	2.3

Discussion: Depreciation is allocated so that an accurate profit can be determined for a given reporting period. This is achieved by matching the revenue earned by an asset with the expense allocated as depreciation. The method that is selected should consider the revenue-earning pattern of the photocopier. If it is thought that the machine would earn revenue consistently over its lifespan, the straight-line method should be used. If the asset is expected to be more productive in its earlier years, the reducing balance method should be used. By selecting the most appropriate method, the accountant would ensure that the most relevant amount of expense would be written off each reporting period. However, as the reducing balance method has already been used, the consistency principle would suggest that the same method should be used again in the future. This is done so that valid comparisons of performance can be made from period to period, thus satisfying the qualitative characteristic of comparability. The conservatism principle would support the reducing balance method as it writes off more of the asset's cost in its earliest years, thus reducing the likelihood of overstating the value of the asset.

This question required students to discuss the issue at hand, with reference to both accounting principles and qualitative characteristics. A variety of responses were provided to this question, with some excellent points being made. However, some students failed to provide a full discussion of the issues involved and, therefore, were rewarded with only some of the marks available. It was also interesting to note that some students thought photocopiers had no moving parts at all and never broke down. They used these points to try to justify one depreciation method over another. It is recommended that teachers walk students through this question and discuss the many possible points relating to this issue. It should prove to be a valuable revision tool.

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Question 6

6a.

Marks	0	1	2	3	4	Average
%	4	3	8	23	61	3.4

Stock Card

Item: XS200 Android Phone				Cost Assignment Method: FIFO						
Date 2012	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Dec	Balance							5	350	1 750
3 Dec	Invoice 2668	10	340	3 400				5 10	350 340	5 150
10 Dec	Invoice 233				3	350	1 050	2 10	350 340	4 100
15 Dec	CN 15	2	350	700				4 10	350 340	4 800
19 Dec	Receipt 229				4	350	1 400	10	340	3 400
21 Dec	CN X97				3	340	1 020	7	340	2 380

This question was well handled by most students, with many achieving full marks. Common errors were made in recording the purchase made on 3 December. The goods were bought at a cheaper price and some students obviously thought that the cheaper goods should be listed first. This is a breach of the FIFO method as stock prices must be kept in the order of purchase, regardless of whether these goods are cheaper or dearer. Some students also recorded the entry on 21 December in the 'IN' column, despite the fact that the transaction was a purchases return – that is, goods were leaving the business and going back to the supplier.

6b.

Marks	0	1	2	3	Average
%	25	22	21	32	1.6

Explanation: The transaction was a cash sale and, therefore, it will increase cash sales, as an inflow under operating activities, by \$2400. In addition, \$240 GST will also be received in cash, thus also increasing operating inflows. Overall, this means that the cash held by the business has increased by \$2640 as operating inflows have increased by this amount.

Students tackled this question in a variety of ways and many explained the effects on the report in detailed fashion. Poorer responses tended to simply state that cash will increase or operating activities will increase. Students are reminded that a three-mark 'explanation' question requires a detailed response in order to achieve the maximum marks available.

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Question 7

7a.

Marks	0	1	Average
%	51	49	0.5

Calculation	
$250 \times 22 = 5\,500$ $1\,000 \times 9 = 900$ $1\,500 \times 12 = \frac{18\,000}{32\,500}$	
Value of Stock	\$32 500

This question should have been a straightforward calculation of the cost of stock. However, the calculations provided by many students showed that they went much further than necessary, despite the question clearly stating ‘before applying the lower of cost and net realisable value (NRV) rule’. This went unnoticed by many students, who subsequently came up with a large array of incorrect answers.

7b.

Marks	0	1	2	3	Average
%	28	26	4	43	1.6

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Dec 31	Stock Write Down	3 250			
	Stock Control		3 250		

Question 7b. was allocated three marks and these were awarded as follows.

- one mark for the correct double entry of Stock Write Down and Stock Control
- two marks for the correct amount of \$3250

Although many students knew the double entry required, some struggled to calculate the correct dollar value of the write down. Two different stock lines had to be written down and, therefore, two steps were involved. Unfortunately, some students found this process rather difficult.

7c.

Marks	0	1	2	3	Average
%	22	18	26	34	1.7

Accounting principle: Conservatism

Explanation: Losses should be acknowledged as soon as they become probable or are expected to happen so as not to overstate assets and owner’s equity in the Balance Sheet. This stock write down was done as the expected selling price of the stock has fallen below its cost price.

One mark was allocated for identifying the principle of conservatism. The other two marks were allocated to the detailed explanation.

An issue that came to light in this question was the number of students who provided rote-learned definitions of conservatism. Rote-learned responses talked about not recognising revenue until certain, in addition to discussing the recognition of expenses when probable. Such responses do not answer the question at hand. If students are going to use textbook-type definitions as part of their response, they must extract and apply the part of the definition that relates to the particular question. Simply writing a rote-learned response does not mean that maximum marks will be awarded.

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Question 8

Marks	0	1	2	3	4	5	Average
%	35	9	8	12	17	19	2.3

Disposal of Tractor

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Dec 31	Tractor	32 000	Dec 31	Acc. Depn. of Tractor	23 000
				Sundry Creditor – Tractor World	8 200
				Loss on Disposal of Tractor	800
		32 000			32 000

One mark was awarded for correctly recording the historical cost of the tractor (\$32 000) and the accumulated depreciation of the tractor (\$23 000).

One mark was allocated to the correct recording of the loss on disposal of the tractor.

One mark was awarded for correctly recording the trade-in value of the old tractor in both the disposal account and the account shown below.

Sundry Creditor – Tractor World

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Dec 31	Disposal of Tractor	8 200	Dec 31	Tractor/GST Clearing	67 100
	Bank	10 000			
	Balance	48 900			
		67 100			67 100
			2013 Jan 1	Balance	48 900

One mark was allocated to the payment of the \$10 000 deposit on the debit side of the Sundry Creditor's account.

The final mark was for the Tractor/GST Clearing entry of \$67 100.

This question proved to be one of the more difficult questions in the examination. Many students had difficulty completing the two accounts, and using correct titles and correct amounts. As is always the case, the Cross-reference column must be completed with the full titles of the relevant general ledger accounts. Students are advised to revise this area carefully. They are also reminded that assets may be traded-in or sold for cash, but these two transactions require different entries in the accounts. Overall, the responses to this question were disappointing, with many students failing to score even one of the five marks available.

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Question 9

Marks	0	1	2	3	4	5	6	Average
%	16	10	16	21	19	12	6	2.8

Identification and analysis: The graph shows that Bad Debts increased from 2009 to 2010. Debtors Turnover was also at a level much higher than that budgeted for. Bad Debts then decreased slightly from 2010 to 2011. In the same time period, Debtors Turnover decreased at a greater rate than that predicted by the budget. However, despite the fact that Debtors Turnover had shown significant improvement, the level of Bad Debts had not improved significantly. This may have been surprising to the accountant as the business was expected to show improvement in relation to the management of debtors. It would, therefore, be reasonable to also expect a marked improvement in the level of Bad Debts. This did not eventuate and may well have surprised the accountant. Analysing these results, one could argue that Debtors Turnover improved as a result of better management of debtors. Better follow-up procedures may have been instigated, more prompt invoicing may have been put in place or better credit checks may have been done. Bad Debts may well have improved slightly through these procedures, but it appears that the business is still carrying a significant expense in the form of Bad Debts. From one reporting period to the next, the business is still suffering from significant Bad Debts and this issue needs further corrective action to be taken.

Question 9 was the second of two extended response questions in this examination. Although excellent responses were given by some students, many students could not go much further than simply stating that Debtors Turnover decreased a lot and Bad Debts decreased slightly. The more successful responses went further than this basic level of detail and provided some analysis of what may have happened in the business. It was important to identify and analyse, as requested in the question, in order to achieve a high score.

Question 10

Marks	0	1	2	3	4	Average
%	24	13	21	15	27	2.1

Strategy to improve Gross Profit Margin: Find a cheaper supplier or buy in bulk and negotiate a cheaper cost price

Justification: This will lead to a greater percentage of the sales dollar being retained to cover other expenses. This will occur as the average mark-up achieved by the business will increase if cost prices were decreased and selling prices remained the same.

Strategy to improve Asset Turnover: Identify any poorly performing assets or idle assets and remove them from the business.

Justification: Sales relative to total assets will be greater, thus achieving a higher Asset Turnover. If the business concentrates on having only productive assets and eliminating poorly performing assets, the Asset Turnover rate should increase.

Many students achieved full marks for this question. Responses included several suggestions as to how to achieve an increase in mark-up and, therefore, the Gross Profit Margin. The less successful responses recommended action such as 'cut back on expenses'. These responses showed a poor understanding of how the Gross Profit Margin is determined.

With regard to Asset Turnover, many students suggested that idle stock should be eliminated and that the business should focus on items that sell quickly and generate lots of revenue. This was a good approach as it was obviously something to which students could relate. Increasing stock turnover can then lead to an increase in Asset Turnover. This is a good example of where an alternative answer, if well explained, could still achieve full marks.

Question 11

11a.

Marks	0	1	2	Average
%	29	19	52	1.3

Definition: Liquidity is the ability of the business to meet its short-term debts as they fall due.

Many students achieved full marks for this question. As this question appeared near the end of the examination, it may be the case that other students ran out of time and did not attempt to answer. If so, students are reminded that all questions should be attempted and time management should be seen as a vital part of their examination plan.

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11b.

Marks	0	1	2	Average
%	36	27	37	1

Explanation: One consequence could be that the suppliers of the business may cut off their supply of stock. If the business is not able to meet its debts on time, creditors will be less likely to be willing to provide credit into the future. Therefore, poor liquidity can lead to bigger problems if creditors cannot be paid on time.

A variety of responses were awarded marks for this question. Although many students responded with similar answers to that shown above, others discussed the possibility of the business having to borrow more money to survive. Some students mentioned that the owner may have to find additional funds from personal savings, while others discussed the possibility of the business closing down completely if it continued to struggle to meet its debts on time.