2024 VCE Accounting external assessment report

General comments

The 2024 VCE Accounting examination included eight questions consisting of multiple parts.

Most students were able to complete the examination within the 2 hours allocated. While some students did not attempt every question, this appeared to be due to their knowledge of particular topics rather than running out of time, as they missed questions intermittently throughout the examination. It is important that students cover all areas of the VCE Accounting Study Design throughout the course, as all areas are eligible for assessment in the examination.

Effective use of reading time is a skill that should be practised throughout the year. It is important that students ensure that they read each question thoroughly and highlight the key parts of the question before attempting a response. Many students appeared to have misread questions, resulting in inaccurate responses that did not directly address the requirements of the question.

Terminology is a significant component of the VCE Accounting Study Design. Students should gain, and be able to apply, an understanding of all terminology covered within the course, not just the regularly used terms. When responding to theory questions, students should ensure that they support their responses with terminology, in particular terminology that appears in the Study Design. Correct terms need to be used when describing the change in financial indicators.

Accounting reports were generally handled well by students. Attention to detail when preparing reports is an important skill.

General Ledger questions were tested throughout the examination, with students being required to post to, balance and close ledger accounts. Most students handled these questions well and were able to score marks for the ledger accounts. Common errors resulting in loss of marks for these questions included the use of incorrect cross-references, reversal of entries and failure to record all entries stipulated within the question.

Modelling questions now appear frequently in VCE Accounting examinations. These questions have developed in complexity since their introduction with the current Study Design. Students are generally achieving high scores in this area of the study.

The 2024 VCE Accounting examination included one discussion question. It was generally handled well by students.

Specific information

Note: Student responses reproduced in this report have not been corrected for grammar, spelling or factual information.

This report provides sample answers or an indication of what answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

The statistics in this report may be subject to rounding, resulting in a total of more or less than 100 per cent.

Question 1a .

|  |  |  |  |
| --- | --- | --- | --- |
| Mark | 0 | 1 | Average |
| % | 35 | 65 | 0.7 |

The transaction is a credit purchase of inventory. The business purchased 12 Extreme Hero costumes from Cass Costumes for $155 (plus GST) each.

The question required students to use the source document provided in the inventory card to determine that it was a credit purchase of inventory.

Common errors included:

* not referring to credit
* not referring to inventory.

Students should be able to identify the type of transaction that is generated by each type of source document.

Question 1b.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 24 | 13 | 15 | 47 | 1.9 |

General Journal

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2024** | **Details** | **Debit**  **$** | **Credit**  **$** |
| 7 Feb | Sales Returns | 560 |  |
|  | GST Clearing | 56 |  |
|  | Accounts Receivable |  | 616 |
|  | Inventory | 280 |  |
|  | Cost of Sales |  | 280 |

This question required students to identify the nature of a transaction from an inventory card.

Students were awarded one mark for the Sales Return and GST Clearing entries, one mark for the Accounts Receivable, and one mark for Inventory and Cost of Sales.

Common errors included:

* recording the Sales Return as a purchase return
* incorrect reference to Sales Returns as Sales
* incorrectly calculating the mark-up
* reversal of Inventory and Cost of Sales accounts.

The recording of general journal entries from source documents requires a detailed understanding of a variety of source documents. Students should practise recording transactions directly from source documents.

Question 1c.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 24 | 24 | 31 | 22 | 1.5 |

This question required students to explain why Blozzo Bazaar would use different cost-assignment methods for differently priced inventory.

Lower-scoring responses explained the difference between the First In First Out (FIFO) and Identified Cost assignment methods but were not able to justify their use.

To achieve full marks, students were required to justify why the business would use the First In First Out cost assignment method for low-cost inventory and Identified Cost for higher-cost inventory. Responses that referred to the accuracy of each method for determining cost of sales and inventory valuation and provided a definition of each method were awarded full marks.

Common errors included:

* defining the methods but not justifying why a method would be chosen
* referring to the First In First Out cost assignment method being used for fresh food to ensure that the oldest inventory is sold first.

Students should understand why a particular cost assignment method is chosen by a business. While many students were able to provide a rote-learned definition, they needed to demonstrate their understanding of the benefits of each method.

The following is an example of a high-scoring student response:

Using identified cost, items of inventory are tagged and coded so the cost price of inventory that is being sold and received (e.g. sales returns) is accurately known, enabling accurate figure of cost of sales to be determined leading to an accurate net profit as well as the inventory value in the balance sheet. However this method is time-consuming and expensive and is typically used for slower-moving inventory of higher cost prices. As the make-up and wigs are lower priced, Blozzo Bazaar uses FIFO likely as the additional cost incurred by identified cost outweigh the benefit of more accurate reports. Additionally due to the lower cost impact of using FIFO which assumes the first inventory received is the first to sell, would not be as significant on the accuracy of cost of goods sold and net profit. Hence, the business likely uses different methods based on the nature of inventory and speed of inventory turnover.

Question 2a.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | 5 | 6 | Average |
| % | 3 | 6 | 17 | 26 | 24 | 16 | 9 | 3.5 |

|  |  |
| --- | --- |
| Marks | Criteria |
| 5–6 | Demonstrated a detailed understanding of financial and ethical implications of decisions made by a business owner  Comprehensive discussion of the positive and negative implications of decisions made by the business owner  Accurate use of correct accounting terminology and discussion of the implications of the impact on the performance of the business |
| 3–4 | Demonstrated an understanding of financial and ethical implications of decisions made by the business owner  Referred to both positive and negative implications of decisions made by the business owner  General use of correct accounting terminology and reference to the implications of the impact on the performance of the business |
| 1–2 | Basic, if any, reference to ethical or financial considerations  Identifies at least one ethical issue; or  Identifies at last one financial issue |
| 0 | Displays no knowledge of ethical and financial issues |

This question required students to use financial and non-financial information to discuss the impact of the owner changing supplier, while considering the financial and ethical considerations regarding their decision.

In this question, 25 per cent of students scored at least five marks. Students who performed well accurately used correct accounting terminology to support their response. When referring to the inventory turnover, for example, the correct terminology is ‘slower’ or ‘faster’, rather than ‘increasing’ or ‘decreasing’.

Higher-scoring responses used detailed accounting terminology and were able to provide a discussion that was supported by a comprehensive understanding of both the financial and ethical implications of decisions made by a business owner.

Higher scoring responses covered areas such as:

* The decision to change to a new supplier has had a minimal impact on sales over the period.
* Gross Profit Margin and Net Profit increased in 2023, which are both positive changes. However, likely due to the decline in quality, sales returns increased while customer satisfaction declined.
* There was a decline in sales in 2024, possibly due to a loss of reputation and repeat business from regular customers. The trend of increasing sales returns and declining customer satisfaction continued and does not augur well for future sales. Brand loyalty has likely been damaged by retaining the Me4 logo on what the company knows are inferior inventory, which is questionable ethically as customers have not been made aware of the lower quality.
* The business may consider using a ‘second’ brand to distinguish the new products and retain some of the inventory from the old supplier, even if it has to increase the mark-up to maintain profitability. Repeat customers generally value quality and will move to competitors if necessary. Buying in larger quantities has also led to a build-up of inventory, as shown by the slower inventory turnover. This could lead to obsolescence, decline in return on assets or future discounting to clear inventory.
* The increased Net Profit Margin could be due to the business improving its expense control by reducing sales and service staff.
* Overall, the change, while positive in 2023, may lead to further declines in 2025 and beyond. It has not been a beneficial change.

Lower-scoring responses used incorrect accounting terminology such as references to inventory turnover increasing, rather than being slower. They also only listed the main points rather than discussing both the positives and negatives of the owner’s decision to change suppliers.

Question 2b.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | Average |
| % | 11 | 7 | 12 | 22 | 47 | 2.9 |

General Journal

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2024** | **Details** | **Debit**  **$** | **Credit**  **$** |
| 6 Jun | Inventory | 70 000 |  |
|  | GST Clearing | 7 000 |  |
|  | Accounts Payable |  | 77 000 |
|  |  |  |  |
| 15 Jun | Delivery | 3 000 |  |
|  | GST Clearing | 300 |  |
|  | Bank |  | 3 300 |

This question required students to identify the nature of a transaction from references to source documents.

Students were awarded one mark for Inventory and GST Clearing entries, with Accounts Payable receiving one mark. One mark was awarded for Delivery and GST Clearing entries, with Bank receiving one mark.

Common errors included:

* recording Accounts Payable as Bank in first entry
* recording Bank as Accounts Payable in second entry
* incorrectly calculating the mark-up
* referring to delivery as Prepaid Delivery expense.

Students should practise recording general journal entries directly from source documents information.

Question 2c.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 19 | 17 | 29 | 35 | 1.8 |

This question required students to explain why delivery costs were recorded as a period cost and not as a product cost.

To achieve full marks, students were required to justify why the business would use the First In First Out cost assignment method for low-cost inventory, and Identified Cost for higher-cost inventory. Responses that referred to the accuracy of each method for determining cost of sales and inventory valuation and provided a definition of each method were awarded full marks.

Higher-scoring responses explained that while both period costs and product costs involved getting the inventory into location ready for sale, the multiple lines of inventory, including tents, sleeping bags and cooking appliances, resulted in it not being possible to logically allocate the delivery cost to each individual item of inventory.

As the delivery cost could not be logically allocated to each item of inventory, it would be recorded as a period cost rather than a product cost.

Lower-scoring responses provided a definition of period cost but did not explain how this related to the inventory in the question.

The following is an example of a high-scoring student response.

A product cost is a cost incurred to bring inventory into a location and condition ready for sale, which may be logically allocated to individual items, whereas a period cost is any cost incurred to bring inventory into a location and condition ready for sale which may not be logically allocated to individual items. As the delivery cost of $3 000 for Me4Camping included three different items, the $3 000 may not be logically allocated to each item as it can’t be assumed that each item would incur the same delivery cost. Thus, the delivery cost must be recorded as a period cost.

Question 2d.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 36 | 17 | 17 | 30 | 1.4 |

This question required students to explain the effect on Net Profit of treating the delivery as a period cost rather than a product cost.

To achieve full marks, students were required to refer to net profit being lower, as not all inventory had been sold during the period. The entire delivery would not be recognised as a cost of sale during the year ended 30 June 2024.

Higher-scoring responses explained that because not all inventory had been sold, the net profit would be lower, as the period cost would result in a higher cost of goods sold than the product cost.

Lower-scoring responses referred to net profit decreasing, rather than being lower, and did not refer to all inventory not being sold.

Question 3a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 30 | 15 | 23 | 32 | 1.6 |

This question required students to prepare the Capital Ledger account to determine the capital contribution made by the owner. The information provided included cash and inventory drawings made by the owner, and students were not required to complete a Drawings Ledger. To achieve full marks, students needed to post the transfer entry from Drawings to the Capital Ledger. Students appeared to be unprepared for this task, with many posting both cash and inventory in the Capital Ledger. Cross-references were also an issue, with students using Capital Contribution rather than Bank as the cross-reference capital contribution made by the owner.

**Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2024** | **Cross-reference** | **Amount**  **$** | **Date**  **2024** | **Cross-reference** | **Amount**  **$** |
|  | Drawings | 25 000 |  | Balance | 236 500 |
|  | Balance | 346 500 |  | Profit and Loss Summary | 60 000 |
|  |  |  |  | Bank | 75 000 |
|  |  | 371 500 |  |  | 371 500 |
|  |  |  |  |  |  |

Students were awarded one mark for Drawings and Profit and Loss Summary, one mark for Balances and one mark for Bank.

Common errors included:

* recording the inventory and cash drawings in the Capital account
* using the cross-reference Capital Contribution instead of Bank
* not including totals at the base of the ledger account.

Question 3b.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | 5 | Average |
| % | 13 | 11 | 11 | 14 | 20 | 30 | 3.1 |

This question required students to prepare the Financing Activities section of the Cash Flow Statement for the three months to 30 September 2024. Fifty per cent of students were able to achieve at least four marks for this question. Some students were able to show all Cash Flows correctly but incorrectly referred to Cash Flows from Operating or Investing Activities.

**Cowpers Carpets**

**Cash Flow Statement (extract) for the three months ending 30 September 2024**

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| **Cash Flow from Financing Activities** |  |  |
| Capital | 75 000 |  |
| Loan Received | 20 000 |  |
| Drawings | (19 000) |  |
| Loan Paid | (35 000) |  |
| **Net Cash Flow from Financing Activities** |  | 41 000 |
|  |  |  |

Students were awarded one mark for Capital, one mark for Loan Received, one mark for Drawings, one mark for Loan Paid and one mark for formatting.

Common errors included:

* referring to Capital as cash contribution or Bank
* combining loan received and loan repayment
* including inventory drawings as cash drawings
* not using the correct title for Net Cash Flow from Financing Activities.

This question was generally well handled, although attention to detail was an issue for some students. When preparing accounting reports such as the Cash Flow Statement, it is important that students check the format of their reports to ensure that they are using the correct titles.

Question 3c.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | Average |
| % | 38 | 14 | 16 | 16 | 17 | 1.6 |

This question required students to explain two possible reasons why the Net Cash Flow from Operating Activities for the business was higher than the Net Profit of the business.

To achieve full marks, students were required to explain two examples that resulted in Net Cash Flows from Operating Activities being higher than Net Profit. A response could include two well-explained examples that demonstrated an understanding of the difference between Net Profit and the cash flows from the day-to-day trading activities of the business. The examples needed to result in Net Profit being lower, and therefore examples such as credit sales being greater than collections from accounts receivable were not acceptable; however, collections from accounts receivable being greater than credit sales was an acceptable response.

Higher-scoring responses explained the difference between Net Cash Flows from Operating Activities (being net cash flows from day-to-day trading activities) and Net Profit. They provided reasons such as non-cash expenses, including depreciation expense, inventory loss, inventory write-downs, bad debts or changes in accrued and prepaid expenses, which decrease net profit while having no impact on Net Cash Flows from Operating Activities. Higher-scoring responses recognised that all sales were made on a credit basis and therefore if the business collected more cash from accounts receivable than sales during the period, this would result in Net Cash Flow from Operating Activities being greater than Net Profit. The same would occur if cost of sales was greater than payments to accounts payable.

Lower-scoring responses:

* did not refer to Net Cash Flows from Operating Activities being cash flows relating to day-to-day trading activities
* did not make a distinction between cash and profit
* referred to examples such as capital contributions or loans that were not cash flows from operating activities.

While many students appeared to have a good understanding of the topic, there was a considerable number of students who were not able to achieve marks in this question. It is important that students are prepared for a range of questions such as this that focus on Operating Activities in the Cash Flow Statement, rather than relying on rote-learned responses.

Question 4a.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Average |
| % | 5 | 3 | 6 | 12 | 17 | 19 | 23 | 15 | 4.6 |

|  |  |  |
| --- | --- | --- |
| **FZ Pool Supplies**  **Budgeted Income Statement for the year ending 30 June 2025** | | |
|  | $ | $ |
| **Revenue** |  |  |
| Sales | 651 000 |  |
| Less Sales Returns | 13 020 | 637 980 |
| Less Cost of Goods Sold |  |  |
| Cost of Sales |  | 318 990 |
| **Gross Profit** |  | 318 990 |
| **Less Other Expenses** |  |  |
| Wages | 90 640 |  |
| Rent | 37 800 |  |
| Depreciation of Vehicle | 13 440 | 141 880 |
| **Net Profit** |  | 177 110 |

This question required students to adjust 2024 financial information to prepare a Budgeted Income Statement for the year ending 30 June 2025. The question was well handled, with 57 per cent of students achieving at least four marks. This question assessed a range of skills including formatting of a Budgeted Income Statement, applying mark-up and Balance Day Adjustments. While many students performed well, only 15 per cent achieved full marks. There was a range of errors, such as not using the full term ‘Depreciation of Vehicle’ in the report.

One mark was awarded for Sales, one mark for Sales Returns, one mark for Cost of Sales, one mark for Wages, one mark for Rent, one mark for Depreciation of Vehicle and one mark for format.

Common errors included:

* incorrectly formatting Budgeted Income Statement
* incorrectly applying mark-up when calculating Cost of Sales
* incorrectly calculating Wages
* not taking into consideration the change in Rent from 1 January 2025
* not apportioning the depreciation of the new vehicle, which was only owned from 1 March 2024.

Many students did not correctly calculate the mark-up for the Cost of Sales amount.

Question 4b.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 17 | 31 | 32 | 21 | 1.6 |

This question required students to explain how the business would use the Budgeted Income Statement during the year ended 30 June 2025.

To achieve full marks, students were required to consider how the Budgeted Income Statement can be used as part of the planning and control process for the business during the year ended 30 June 2024.

They were required to explain how the budget can be used to set goals, assess performance and motivate staff, as well as control expenses by setting limits. Throughout the year the budget can be used to assess performance and to take corrective action to ensure that the business is operating as expected. As the question included the constraint ‘for the year ended 30 June 2024’, students needed to avoid referring to the business operations in future periods.

Higher-scoring responses explained that the Budgeted Income Statement would be used for planning and control. They referred to its use to provide goals, assess performance and motivate staff. The business could set sales and sales-return targets for staff to achieve during the year.

Higher-scoring responses also referred to the budget being used to control expenses by imposing limits on expenses, which would be used by the owner to ensure that the business operated within the budgeted targets.

Lower-scoring responses tended to:

* refer to the Budgeted Income Statement being used to review past performance rather than explaining how it could be used during the year
* refer to the report being used to determine if the business had sufficient cash flow to purchase non-current assets.

The following is an example of a high-scoring student response:

F2 Pool Supplies should use this Budgeted Income Statement as a benchmark to compare their actual performance throughout the year to. This will help maintain staff accountability as staff who performed well would be rewarded whereas staff in management areas that were unfavourable in comparison to budgeted performance (e.g. lower sales) would need to meet with the owner to discuss the reasons as to why performance was lower than budgeted, supported by market conditions at the time. This budgeted Income Statement should also be used to produce a variance report in order to improve the accuracy of the budgets for the following year (2026) and as an additional guide to see where business performance can be improved.

Question 5a .

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | Average |
| % | 37 | 32 | 31 | 1.0 |

This question required students to explain why Cash Flow Cover is an important indicator of liquidity. Many students appeared not to be aware of how the Cash Flow Cover indicator is determined by a business and how it can be used to assess liquidity. Thirty-seven per cent of students did not achieve any marks for this question.

Two marks were awarded for an explanation that Cash Flow Cover is an indicator of the business’s ability to generate cash from day-to-day operations, which ensures that it has the cash available to meet its repayment obligations in a timely manner. Most higher-scoring responses included this explanation.

Lower-scoring responses:

* did not identify that Cash Flow Cover compares current liabilities with net cash flows from operating activities
* did not refer to the ability to meet short-term debts as they fall due.

The following is an example of a high-scoring student response:

Cash Flow Cover is calculated as net cash flow from operating activities as a ratio to current liabilities. It is an important indicator of liquidity since it shows if the business is generating enough cash in its day to day operating to meet their short-term cash commitments in a timely manner. The business should rely on generating cash from operating activities rather than selling non-current assets or taking out loans.

Question 5b .

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | Average |
| % | 12 | 13 | 24 | 21 | 30 | 2.5 |

This question required students to describe two problems that may occur for a business experiencing poor liquidity. Students had the opportunity to develop their own scenarios showing problems that the business could experience. In order to achieve full marks, students needed to describe two problems. Students were able to apply the knowledge that they had developed throughout the course to a scenario. Many students were able to demonstrate their understanding, with 51 per cent of students achieving at least three marks. However, some students repeated the same problem twice, or provided responses that lacked adequate detail, such as ‘the business will not be able to meet its short-term debts as they fall due’.

Higher-scoring responses described two different problems, such as:

* inability to pay suppliers, which could result in lack of supply of inventory
* late payment of wages, which could result in employees leaving the business
* having to rely on loans to fund day-to-day expense payments, which could result in lack of services being supplied
* inability to pay GST owing to the ATO, which could result in the ATO taking action
* having to purchase inventory when required rather than taking advantage of bulk purchase discounts
* inability to meet short-term debts as they fall due, which could result in bankruptcy.

Lower-scoring responses:

* often repeated the same reason, such as inability to meet short-term debts as they fall due and inability to pay suppliers
* identified a problem but did not describe it.

The following is an example of a high-scoring student response:

Description of Problem 1  
If a business is experiencing poor liquidity, then there is a strain on cash flow, meaning the business may be less able to repay its loans to the bank. Failure to meet these obligations may lead to liquidation as the bank will likely have severe debt collection procedures if repayments can’t be made.

Description of Problem 2  
As Patio buys inventory on credit, deteriorating liquidity may negatively impact their ability to repay their accounts payable, which may lead to the removal of credit facilities. This may result in the business having to purchase inventory with cash, which will place a larger strain on liquidity as the business must pay cash before generating sales and receiving cash from accounts receivable. As selling inventory is the main operation of a trading firm, a lack of it would severely impact its ability to function.

Question 5c .

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 6 | 13 | 40 | 42 | 2.2 |

This question required students to recommend the best option for the owner to improve liquidity and maintain business performance. Students were required to justify their recommendation. Students were presented with four options and were awarded one mark for recommending an option and two marks for justifying their recommendation. Higher-scoring responses made reference to improving the liquidity of the business while maintaining business performance. While the selection of any one of the four options was awarded full marks so long as an appropriate justification was provided, higher-scoring responses focused on liquidity rather than profitability when selecting their recommendation.

Reviewing the management of Accounts Receivable would allow the business to improve its liquidity by focusing on customers who pay within the credit terms. The business could also implement debt collection procedures, which would allow it to improve its liquidity by collecting cash faster while not impacting sales.

Offering an additional 3 per cent discount to Accounts Receivable who repay within seven days would allow the business to improve its liquidity, as it would encourage some Accounts Receivable to repay earlier. This is not as effective as an overall review of Accounts Receivable, although it would have some impact. It would have minimal impact on the performance of the business, and with an inventory turnover of 58 days, it would be unlikely to be taken up by many Accounts Receivable.

Selling one of the motor vehicles would have an immediate effect on liquidity as there would be an injection of cash from the sale; however, it would have a negative effect on the performance of the business as it would have one less vehicle. Increasing the mark-up on sales would be likely to impact profitability. However, with a slowing Accounts Receivable turnover, it would not be likely to impact liquidity.

Lower-scoring responses:

* recommended an option without justification
* referred to profitability and not liquidity
* provided an explanation that did not maintain business performance.

The following are examples of high-scoring student responses:

Option recommended:  
Reviewing the management of accounts receivable

Justification  
Other options (such as selling a vehicle) provide a short-term fix to liquidity issues; however, reviewing how the business deals with accounts receivable can provide ongoing benefits. This may be through sending invoices more quickly or sending reminder notices. By reviewing how Patio follows up their accounts receivable, there should be consistent improvements in liquidity though a quicker ARTO, given that any problems are acted upon, which is necessary for this business given they sell on credit, so receipts from accounts receivable are likely to be the main source of cash inflows.

Option least likely to improve liquidity  
Increasing the mark-up on sales from 80% to 100%

Justification  
This is unlikely to improve liquidity – since all sales are on credit, sales revenue might increase but it risks losing sales as mark-up is increased, and doesn’t address cash collection from credit customers that would improve liquidity. It addresses profitability more (ability to earn profit compared to a base such as sales, assets or owners’ equity). Changing the mark-up may increase the potential accounts receivable amount that can be collected but ultimately doesn’t.

Question 5d .

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 7 | 14 | 37 | 42 | 2.2 |

This question required students to select the option that is least likely to improve liquidity and maintain business performance and to justify the selection.

Students were provided with the same four options presented in Question 5c. and were awarded one mark for selecting an option and two marks for justifying their selection.

Higher-scoring responses provided an option that was least likely to improve liquidity and maintain business performance.

Increasing the mark-up on sales is likely to impact profitability. However, with a slowing Accounts Receivable turnover, it is not likely to impact liquidity. Therefore, this option would be least likely to improve liquidity and maintain business performance.

The other options would all improve liquidity, although selling the motor vehicle would not maintain business performance due to the business having one less vehicle.

Offering an additional 3 per cent discount to Accounts Receivable who repay within seven days would allow the business to improve its liquidity as it would encourage some Accounts Receivable to repay earlier. This is not as effective as an overall review of Accounts Receivable, although it would have an impact. It would have a minimal impact on the performance of the business, and with inventory turnover of 58 days, it would be unlikely to be taken up by many Accounts Receivable.

Reviewing the management of Accounts Receivable would allow the business to improve its liquidity by focusing on customers who pay within the credit terms. It could also implement debt collection procedures that would allow it to improve its liquidity by collecting cash faster while not impacting sales.

Lower-scoring responses:

* selected an option without justification
* referred to options that would improve liquidity
* provided an explanation that maintained business performance
* did not recognise that increasing mark-up would have a minimal impact on liquidity.

Question 6a.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Average |
| % | 15 | 12 | 12 | 10 | 8 | 7 | 7 | 8 | 11 | 12 | 4.2 |

This question provided an opportunity for students to prepare General Ledger accounts from opening balances and transactions. There were a range of responses to this question, with 15 per cent of students scoring no marks and 12 per cent of students scoring nine marks. As the question required students to complete the ledger accounts, marks were awarded for closing and balancing the ledger accounts. Some students were unsure which accounts to close and balance.

Students should ensure that they do not include GST Clearing as the cross-reference in the Unearned Sales Revenue Ledger account when recording sales. Some students did not perform as well when dealing with an opening balance in Allowance for Doubtful Debts and an adjustment is required. As part of their revision, it is recommended that students are prepared to complete one stage of the bad debts process rather than always completing all stages in one question.

Wages

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2024** | **Cross-reference** | **Amount**  **$** | **Date**  **2024** | **Cross-reference** | **Amount**  **$** |
| Oct 12 | Bank | 38 400 | Oct 31 | Profit and Loss Summary | 99 200 |
| 26 | Bank | 44 800 |  |  |  |
| 31 | Accrued Wages | 16 000 |  |  |  |
|  |  | 99 200 |  |  | 99 200 |
|  |  |  |  |  |  |

**Unearned Sales Revenue**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2024** | **Cross-reference** | **Amount**  **$** | **Date**  **2024** | **Cross-reference** | **Amount**  **$** |
| Oct 25 | Sales | 1 000 | Oct 8 | Bank | 1 000 |
|  |  |  |  |  |  |

**Allowance for Doubtful Debts**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2024** | **Cross-reference** | **Amount**  **$** | **Date**  **2024** | **Cross-reference** | **Amount**  **$** |
| Oct 31 | Balance | 3 800 | Oct 1 | Balance | 1 800 |
|  |  |  | 31 | Bad debts | 2 000 |
|  |  | 3 800 |  |  | 3 800 |
|  |  |  | Nov 1 | Balance | 3 800 |

This question required students to use opening balances and transactions to complete ledger accounts.

Wages ledger

* One mark was awarded for both Bank entries.
* One mark was awarded for Accrued Wages.
* One mark was awarded for Profit and Loss Summary.

Unearned Sales Revenue Ledger

* One mark was awarded for Sales.
* One mark was awarded for Bank.

Allowance for Doubtful Debts Ledger

* One mark was awarded for Opening Balance.
* One mark was awarded for Closing Balance and Carried Forward Balance.
* One mark was awarded for Bad Debts.
* One mark was awarded for using correct dates in all ledgers.

Common errors included:

* not recognising Accrued Wages paid on 12 October
* balancing Wages rather than closing
* recording on 25 October as Sales/GST Clearing
* not recognising that the Bad Debts transaction on 31 October takes into consideration the opening balance
* missing dates.

Students should be aware of the importance of dates when completing ledger accounts. They should also understand how to apply closing and transferring entries when closing ledger accounts.

Question 6b.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | 5 | 6 | Average |
| % | 30 | 9 | 12 | 7 | 17 | 3 | 23 | 2.8 |

General Journal

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2024** | **Details** | **Debit**  **$** | **Credit**  **$** |
| 31 Oct | Bad Debts | 2 000 |  |
|  | Allowance for Doubtful Debts |  | 2 000 |
|  |  |  |  |
| 31 Oct | Advertising Expense | 900 |  |
|  | Prepaid Advertising Expense |  | 900 |
|  |  |  |  |
| 31 Oct | Wages Expense | 16 000 |  |
|  | Accrued Wages Expense |  | 16 000 |

This question required students to use the transactions and additional information provided to prepare General Journal entries to record adjustments.

Marks were awarded as follows:

* One mark was awarded for Bad Debts.
* One mark was awarded for Allowance for Doubtful Debts.
* One mark was awarded for Advertising Expense.
* One mark was awarded for Prepaid Advertising Expense.
* One mark was awarded for Wages Expense.
* One mark was awarded for Accrued Wages Expense.

Common errors included:

* recording payment of advertising rather than adjustment
* not recording all transactions
* reversing transactions.

Question 6c .

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 19 | 27 | 36 | 17 | 1.5 |

This question required students to refer to one qualitative characteristic and to explain why the adjustment for the Allowance for Doubtful Debts was required on 31 October.

Students were awarded one mark for referring to Faithful Representation and two marks for an explanation.

Higher-scoring responses referred to Faithful Representation. They explained that information should be a faithful representation of the real-world economic event that has occurred. By reporting an allowance for doubtful debts, this ensures that the reports are complete as accounts receivable are not overstated in the Balance Sheet. The adjustment reports the amount estimated to not be collected and recognises a bad debts expense in the Income Statement.

Lower-scoring responses:

* referred to Relevance and were not able to support their response by explaining that Relevance helps users form a prediction about the outcomes of past, present and future events that not all credit sales will be collected in the future, or to ensure that current assets (accounts receivable) are not overstated in the Balance Sheet
* referred to Faithful Representation but did not explain why the adjustment for the Allowance for Doubtful Debts was made
* referred to an accounting assumption.

When applying qualitative characteristics to theory questions, students should ensure that they use the correct terminology to justify their response. For example, when a business records a balance day adjustment, rather than referring to free from error or providing a neutral report, the focus should be on presenting a faithful representation of the real-world economic event that the balance day adjustment represents. When revising qualitative characteristics, students should practise with a wide range of scenarios to ensure that they have a detailed understanding of how each can be applied.

The following is an example of a high-scoring student response:

Qualitative Characteristic: Faithful Representation

Explanation: The adjustment on 31 October for Allowance for Doubtful Debts is required to recognise that not all accounts receivable will be collected in the future. Recording this allowance faithfully represents the value of accounts receivable assets as well as the real-world economic events that occur. This better represents the financial position of the business, helping stakeholder’s decision making.

Question 7a .

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 21 | 26 | 34 | 19 | 1.5 |

This question required students to explain the accountant’s comment that there will be differences in depreciation expense each year but not over the expected life of the equipment.

One mark was awarded for an explanation of each of the straight-line and reducing-balance depreciation methods. Two marks were awarded for explaining that there would be differences between the depreciation allocated each year based on the application of the revenue-earning pattern when determining the depreciation method used to allocate the cost of the equipment over its useful life. As the equipment will have the same historical cost, useful life and residual value, the depreciation will be the same over the equipment’s life, despite being different each year.

Higher-scoring responses explained that when the cost of the equipment is allocated each year, the depreciation expense would be different depending on the method chosen. The owner needed to consider the revenue-earning pattern of the equipment, and if it was assumed that the equipment would generate more revenue earlier in its life, the reducing-balance method would be considered appropriate. If the equipment was assumed to generate revenue evenly over its life, then the straight-line method would be used as it allocates the same amount of depreciation annually. As the equipment would have the same cost, useful life and residual value, the cost allocated over its life will be the same over its useful life, although it will be different each year depending on the method selected.

Lower-scoring responses:

* determined that depreciation would be different depending on the method elected but did not explain why
* did not explain the relationship between cost, residual value and useful life when determining the total amount of depreciation.

Students should be aware that the depreciation formula used for the reducing-balance method of depreciation is calculated using the historical cost, residual value and useful life of the non-current asset. While they are not required to calculate the formula, doing so will allow them to understand the relationship between the straight-line and reducing-balance depreciation methods over the life of a non-current asset.

Question 7b .

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | Average |
| % | 19 | 58 | 24 | 1.1 |

In this question, students were provided with a graphical representation and required to identify that the amount provided was the Residual Value of equipment owned by the business. This question required students to explain what the $20 000 at year 10 on the graph represented. Many students referred to the Carrying Value as the amount, although they did not recognise that it was provided at the end of the useful life of the equipment.

One mark was awarded for identifying that the $20 000 represented the residual value of the equipment. One mark was awarded for referring to the amount representing the potential economic benefit that remains to be consumed.

Higher-scoring responses explained that the $20 000 represented the residual value of the equipment at the end of its useful life, and therefore it represents the potential economic benefit that remains to be consumed.

Lower-scoring responses:

* referred to the carrying value of the equipment
* did not identify that the $20 000 represented the residual value at the end of the equipment’s useful life.

Students should be able to use correct accounting terminology when referring to the Income Statement and Balance Sheet accounts and titles. Many students were able to refer to the $20 000 being the residual value of the equipment but did not explain what the residual value represented.

Question 7c .

|  |  |  |  |
| --- | --- | --- | --- |
| Mark | 0 | 1 | Average |
| % | 14 | 86 | 0.9 |

This question required students to calculate the depreciation per year if Screenz2U used the straight-line method.

One mark was awarded for the calculation.

= Cost less Residual Value

Useful life

= $200 000 – $20 000

10 years

= $18 000 of depreciation annually

Question 7d .

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | Average |
| % | 16 | 15 | 27 | 41 | 2.0 |

This question required students to show how the equipment would be reported in the Balance Sheet at the end of year 4 if the reducing-balance method was used.

One mark was awarded for Non-Current Assets, one mark was awarded for Equipment and one mark was awarded for Accumulated Depreciation and Carrying Value.

**Screenz2U**

**Balance Sheet Extract as at 31 December (Year 4)**

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| **Non-Current Assets** |  |  |
| Equipment | 200 000 |  |
| less Accumulated Depreciation | 120 379 | 79 621 |
|  |  |  |

Common errors included:

* not including Non-Current Assets
* reversing Accumulated Depreciation and Carrying Value.

Many students identified the $79 621 as the carrying value of the equipment rather than the accumulated depreciation. The graph provided the carrying value and students should ensure that they are able to identify what the lines in a graph represent.

Question 8a.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | Average |
| % | 13 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 14 | 14 | 6 | 6.1 |

This question required students to record the disposal of a van and the purchase of a new van in the General Journal. Some students interpreted the question as one about a Trade-In, as they identified the sale and purchase of the van. Students who used the reading time effectively were able to identify that the sale of the van was a cash sale, as identified in the source document, rather than a Trade-In. As the transaction was a cash sale of a non-current asset, students were required to recognise the GST on the disposal as part of the $14 300 bank entry, with some students not recording the GST Clearing amount. Many students recorded the purchase of the new van, modifications and prepaid insurance as a single entry. When provided with multiple source documents, students should ensure that each source document is recorded using a separate general journal entry.

General Journal

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2024** | **Details** | **Debit**  **$** | **Credit**  **$** |
| Jul 31 | Disposal of Van | 30 000 |  |
|  | Van |  | 30 000 |
|  |  |  |  |
| Jul 31 | Accumulated Depreciation of Van | 21 000 |  |
|  | Disposal of Van |  | 21 000 |
|  |  |  |  |
| Jul 31 | Bank | 14 300 |  |
|  | Disposal of Van |  | 13 000 |
|  | GST Clearing |  | 1 300 |
|  |  |  |  |
| Jul 31 | Disposal of Van | 4 000 |  |
|  | Profit on Disposal of Van |  | 4 000 |
|  |  |  |  |
| Jul 31 | Van | 46 000 |  |
|  | GST Clearing | 4 600 |  |
|  | Bank |  | 50 600 |
|  |  |  |  |
| Jul 31 | Van | 6 000 |  |
|  | GST Clearing | 600 |  |
|  | Bank |  | 6 600 |
|  |  |  |  |
| 1 Aug | Prepaid Insurance Expense | 3 600 |  |
|  | GST Clearing | 360 |  |
|  | Bank |  | 3 960 |

Marks were awarded as follows:

* One mark was awarded for the first entry.
* One mark was awarded for the second entry.
* One mark was awarded for Bank $14 300.
* One mark was awarded for Disposal of Van $13 000 and GST Clearing $1 300.
* One mark was awarded for Disposal of Van $4 000 and Profit on Disposal of Van $4 000.
* One mark was awarded for Van $46 000 and GST Clearing $4 600.
* One mark was awarded for Bank $50 600.
* One mark was awarded for Van $6 000 and GST Clearing $600.
* One mark was awarded for Bank $6 600.
* One mark was awarded for Prepaid Insurance Expense $3 600 and GST Clearing $360.
* One mark was awarded for Bank $3 960.

Common errors included:

* reversing entries
* not including GST on Sale of Van
* combining entries with separate source documents
* recording Prepaid Insurance Expense as Insurance Expense
* missing Van from titles including Accumulated Depreciation of Van and Disposal of Van.

Students should understand that a source document is required for each general journal entry. Therefore, if the business is provided with multiple source documents, each transaction must be recorded separately. Providing narrations when preparing general journal entries will assist students in recognising that there is a relationship between the source document and the entry.

Question 8b.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Mark | 0 | 1 | 2 | 3 | 4 | 5 | Average |
| % | 12 | 9 | 13 | 21 | 14 | 30 | 3.1 |

This question required students to complete the table provided to identify the items that would be reported in the Cash Flow Statement.

|  |  |  |
| --- | --- | --- |
| **Item** | **Section of the Cash Flow Statement**  **Operating/Investing/Financing** | **Inflow/Outflow** |
| Prepaid Insurance Expense | Operating | Outflow |
| GST Received | Operating | Inflow |
| GST Paid | Operating | Outflow |
| Sale of Van | Investing | Inflow |
| Purchase of Van | Investing | Outflow |

One mark was awarded for each line.

Common errors included:

* reporting profit on Disposal of Van as a cash flow
* incorrectly classifying Sale of Van as a Financing Activity.

Students should be prepared for accounting report questions to be presented in a variety of ways. Regular practice of individual cash flows will allow students to develop their ability to identify how the amounts are classified.