



GENERAL COMMENTS

The 2006 examination was the last to be held under the 2003–2006 *Accounting VCE Study Design* and as such, followed the same pattern as previous examinations. The examination was comprised of two questions with multiple parts to each question. The questions and subsequent parts graduated in difficulty and this format will continue under the new study design. Each question dealt with one scenario and was worth 45 marks.

The ability of students to properly read the questions contributed in many cases to students under-performing in certain questions. Previous Assessment Reports have stressed that students should read the question carefully, in conjunction with the Answer Booklet.

A pleasing trend over the past few examinations has been the increasing number of students who complete the examination. The parts of the examination that students do not finish are not necessarily the last questions on the paper. This suggests that students are identifying the questions that they are confident in and answering those questions first, which is good to note.

Students also appear to have consulted previous Assessment Reports and are now making fewer errors with regards to titles, narrations and posting references. In relation to titles, it has been common practice in past examinations to penalise students one mark on each occasion they used the title 'Debtors' rather than 'Debtors Control' (or 'Creditors' or 'Stock' rather than 'Creditors Control' and 'Stock Control'). In this examination there were 14 occasions where these titles were required; assessors agreed to penalise such errors a maximum of one mark in each question – hence a total of two marks over the whole examination.

Question 1 – Plentiful Plants

1.1.1

Marks	0	1	2	3	4	5	Average
%	19	7	6	7	12	49	3.5

Marks	0	1	2	Average
%	29	17	54	1.3

Marks	0	1	Average
%	28	72	0.8

Marks	0	1	2	3	Average
%	22	22	27	29	1.7

Marks	0	1	2	3	4	Average
%	33	13	15	9	30	2.0



GENERAL JOURNAL GJ6

Date 2006	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$
16-Dec	Sales Returns		1 000			
	Debtors Control			1 000		
	Debtor – Easton					1 000
	Stock Control		480			
	Cost of Sales			480		
24-Dec	Creditors Control		480			
	Creditor – McCoppin				480	
	Stock Control			480		
31-Dec	Bad Debts		1 300			
	Debtors Control			1 300		
	Debtor – Richards					1 300
31-Dec	Prepaid Revenue		10 000			
	Sales Revenue			10 000		
	Cost of Sales		4 000			
	Stock Control			4 000		

CASH RECEIPTS JOURNAL CRJ14

Date 2006	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries
	Totals to date			54 835	165	5 500	17 000	29 500	20 000
29	Bob's Plant Care		71	13 300	700	14 000			
31	F Richards		72	1 000		1 000			
31	Totals			69 135	865	20 500	17 000	29 500	20 000

The mark allocation for this question was aligned to the dates of the documents. The General Journal in the Answer Booklet provided dates to make recording easier.

As in previous examinations, the first question was designed to be a straightforward recording task. In this question, five documents were provided (in date order) and students were asked to record them in the appropriate journals.

In past examinations, students often recorded cash flows (receipts or payments) incorrectly in the General Journal. In the 2006 examination, students generally used the Cash Receipts Journal which was pleasing.

Common errors included failing to record the cost price of the stock delivered in document 5, recording the Prepaid Revenue as \$15 000 rather than \$10 000, recording an incorrect amount for Bad Debts (students often failed to consider the credit sale to Debtor – Richards in the Sales Journal in their calculations) and recording the cost price of the Sales return as \$120 rather than \$480.

Students were asked to total the Cash Receipts Journal; those who did not do so were penalised one mark. As in past examinations, students were penalised a maximum of one mark for using incorrect titles (excluding titles for Control Accounts as per the statement made in General Comments above) and reversing debit and credit entries.

1.1.2

Marks	0	1	2	3	4	Average
%	27	13	16	22	22	2.1

Marks	0	1	2	3	4	Average
%	30	10	10	16	33	2.2

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Marks	0	1	2	Average
%	29	33	38	1.2

105 DEBTORS CONTROL (General Ledger)

Date 2006	Particulars	Post Ref.	\$	Date 2006	Particulars	Post Ref.	\$
1 Dec	Balance		21 000	31 Dec	Bank/Disc. Exp.		20 500
31 Dec	Sales		12 500	31 Dec	Bad Debts		1 300
				31 Dec	Sales Return		1 000

501 COST OF SALES (General Ledger)

Date 2006	Particulars	Post Ref.	\$	Date 2006	Particulars	Post Ref.	\$
31 Dec	Stock Control		5 700	31 Dec	Stock Control		480
31 Dec	Stock Control		17 000				
31 Dec	Stock Control		4 000				

105D4 DEBTOR – F Richards (Subsidiary Ledger)

Date 2006	Particulars	Post Ref.	\$	Date 2006	Particulars	Post Ref.	\$
1 Dec	Balance		1 500	31 Dec	Bank		1 000
2 Dec	Sales		800	31 Dec	Bad Debt		1 300

Marks for this question were allocated in order of the Ledger Accounts provided.

Common errors in responses included recording the incorrect amount for Bank/Discount Expense, despite students having totalled the Cash Receipts Journal after entering the correct amounts from the documents provided, and using incorrect dates in Debtors Control and Cost of Sales accounts.

As per past examinations, consequential errors were considered. The three common consequential errors were incorrect amount for Bad Debts in General Journal, failure to record cost price of Prepaid Revenue and cost price of Sales Return. Students were penalised one mark if they used the incorrect dates in the Debtors Control or Cost of Sales accounts.

1.1.3

Marks	0	1	2	Average
%	25	36	39	1.2

Control procedures for improving the management and control of Debtors included:

- conduct credit checks of potential customers prior to offering credit terms
- prepare a debtors ageing analysis to monitor debtors
- carry out more frequent analyses of accounts to deter slow payers
- use various methods to encourage prompt payment; for example, charge interest on overdue accounts and/or threaten with legal action.

As the Cash Receipts Journal indicated that discounts were already provided, offering discounts was not accepted as a response. This meant that many students did not gain full marks. Despite this, many students were able to identify two methods of improving the management and control of Debtors.

1.2.1

Marks	0	1	2	Average
%	18	37	45	1.3

Measures the business may have taken to improve Stock Turnover included:

- hold lower levels of average stock
- buy better quality, more expensive stock, thereby reducing margins but increasing sales
- increase advertising – conduct special promotions

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- increase sales levels while holding stock levels constant
- improve, change or alter the stock mix.

This question was not handled well and it appeared that students did not read the question thoroughly. Despite the constraint placed on responses ('without reducing their prices'), many students suggested that lowering the selling price of stock was an appropriate means of improving Stock Turnover. This response automatically precluded students from achieving full marks.

In all ratio questions students should begin by evaluating the numerator and denominator in the formula. This should have led students to discuss changing (lowering) average stock levels and/or increasing Cost of Sales.

1.2.2

Marks	0	1	2	Average
%	28	36	37	1.1

Improving the Stock Turnover will improve the business' cash cycle because improved Stock Turnover means stock is being converted into cash on a more regular basis. Fewer days = fewer days for cash cycle.

Students were rewarded with one mark for identifying that the cash cycle would 'improve' and one mark for explaining why. It was important that students used the term improved as opposed to increased.

As in Question 1.2.1, if students had approached the question by evaluating the formula they would have provided better responses.

1.2.3

Marks	0	1	2	Average
%	53	18	29	0.8

Negative effects of improving the business's Stock Turnover included:

- not always being able to guarantee supply to customer (possible loss of customer goodwill)
- less stock variety on offer
- may lose discounts offered by supplier on bulk purchasers.

Many students linked their response to a decrease in selling price to improve Stock Turnover. As this was a constraint in Question 1.2.1, such responses were not considered correct. Better responses discussed a potential loss of customers due to less stock being held. Other responses discussed a possible increase in Bad Debts if the business relaxed credit terms in order to improve Stock Turnover through increased sales.

1.3.1

Marks	0	1	Average
%	22	78	0.8

The transaction on 3 January represents a cash sale, while the transaction on 7 January represents a credit sale.

This question was handled very well by students.

1.3.2

Marks	0	1	2	Average
%	38	20	42	1.1

24 January is a sales return of goods by a customer, and 26 January is a purchase return of goods to the supplier.

This question was not handled as well as 1.3.1. Many students were only able to identify one document. An important requirement was that students needed to state that the items in and out were the same items. Common mistakes included calling the transactions a special order, a purchase return or a replacement of the damaged stock.

Questions 1.3.1 and 1.3.2 were different types of Stock Card questions. In past examinations students have been asked to record information into Stock Cards; however, in these questions students were assessed on their knowledge of documents.

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1.3.3

Marks	0	1	2	Average
%	46	21	33	0.9

Net Realisable Value is the estimated selling price of the stock item less any direct costs incurred in selling the item.

This question allowed students to provide a rote-learned definition. The key to gaining full marks was to state that the selling price was only estimated and the costs that needed to be deducted were selling costs, not costs associated in getting the items ready for sale.

1.3.4

Marks	0	1	2	Average
%	47	30	23	0.8

$4 \times \$30 = \120
$30 \times (\$35 - \$3) = \$960$
$\$120 + \$960 = \$1080$
\$ 1 080

This question was reasonably well handled by students. The most common error made was to ‘revalue’ the four stock items that had a cost of \$30 up to \$32. This demonstrated that not all students fully understand the concept of ‘lower of cost and Net Realisable Value’.

1.3.5

Marks	0	1	2	Average
%	25	27	48	1.3

GENERAL JOURNAL

GJ7

Date 2007	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$
31 Jan	Stock Writedown		240			
	Stock Control			240		

Students were awarded one mark for each correct line. As in previous examinations, responses to this type of question were generally good. This was helped by the fact that consequential errors from Question 1.3.4 were ignored.

1.3.6

Marks	0	1	2	3	Average
%	29	19	31	21	1.5

Stock may sometimes be valued at Net Realisable Value because:

- anticipated losses are recorded as soon as possible and gains are not recognised until they actually occur so as not to overstate the value of assets and net profit
- the stock value has fallen below its original purchase price due to becoming shop soiled, etc.

Principle: Conservatism

This question was marked differently than similar questions in past examinations. The explanation was marked first and then the accounting principle was considered in light of the explanation given. The explanation required two points: mention of the recording of losses and the reason why the stock item may have lost value.

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This was the first of two questions that required an accounting principle to be given. In both situations, some students confused the principle with a qualitative characteristic. This is an area that requires more attention from teachers and students in the future.

Question 2 – Forbes Furnishings

Q2.1.1

Marks	0	1	2	3	4	Average
%	4	4	9	21	62	3.4

CASH RECEIPTS JOURNAL

CRJ 8

Date 2007	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
31 Jan	Sub totals			55 600	800	22 400	16 000	30 000	3 000	1 000
	Debtor – J Moore		125	980	20	1 000				
	Total			56 580	820	23 400	16 000	30 000	3 000	1 000

SALES JOURNAL

SJ 6

Date 2007	Debtor	Post Ref.	Inv. No.	Cost of Sales	Sales	GST	Total Debtors
31 Jan	Sub totals			24 000	50 000	5 000	55 000
	L Fitzgerald		342	800	1 200	120	1 320
	Total			24 800	51 200	5 120	56 320

This was another well-answered question and demonstrated that students understood how to record the GST.

Students were required to total the journals. In this instance, one mark was allocated for totalling both journals. When doing this, students needed to ensure they totalled **all** columns.

2.1.2

Marks	0	1	2	3	4	Average
%	23	8	10	19	39	2.5

310

GST CLEARING ACCOUNT

Date 2007	Particulars	Post Ref.	\$	Date 2007	Particulars	Post Ref.	\$
31 Jan	Bank		2 000	31 Dec 2006	Balance C/F		4 000
	Creditors Control		3 200	31 Jan	Debtors Control		5 120
	Balance		6 920		Bank		3 000

This question was not well answered. Students often did not transfer the totalled amounts from the completed journals in Question 2.1.1, or used incorrect titles in the Ledger Account. Students were penalised one mark if they did not balance the account.

2.1.3

Marks	0	1	2	Average
%	53	14	34	0.9

GST has no effect on profit/profit calculation for GST registered businesses. GST on sales is collected and passed onto the ATO (less amounts paid to suppliers on purchasers). The GST is neither an expense nor a revenue because it has no effect on owner's equity.

Students who stated that GST has no effect on profit were generally able to explain why. The key to the explanation was to state that GST does not affect Owner's Equity.

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Students who did not perform well often stated that GST increases revenue as it makes Sales more valuable and therefore increases profit. As with the previous question, this was a standard GST question and the results indicate that many students still do not understand this topic.

2.1.4

Marks	0	1	2	Average
%	28	19	53	1.3

Classification

- Current Liability

Justification

- The money represents monies collected by the business on behalf of the ATO, and must be forwarded to the ATO in the short term. The GST received is greater than GST paid. It represents a future economic sacrifice that the business is currently obliged to make within the next 12 months to the ATO.

The majority of students were able to identify Current Liability as the correct classification of GST. In providing the justification, students needed to identify that the amount owed needed to be paid within 12 months or during the next reporting period. Failure to make this statement has been a common error in past examinations and students must learn to be more explicit in their responses.

2.2.1

Marks	0	1	2	Average
%	39	24	37	1.0

Balance (31 March)	27 000		Creditors Control			
+ Credit Purchases	96 000					
– Contra entry	5 000	Or	Debtors Ctrl	5 000	Balance	27 000
– Balance (30 June)	<u>29 000</u>		Bank	89 000		
Payments to Creditors	\$ 89 000		Balance	29 000	Stock Control	96 000

The most common errors in answering this question were failing to consider the contra entry, not subtracting the balance of Creditors Control at end and incorrectly calculating the credit purchases.

2.2.2

Marks	0	1	2	3	Average
%	42	17	21	19	1.2

Balance (31 March)	22 000		Debtors Control			
+ Credit Sales	72 000					
– Contra	5 000	Or	Balance	22 000	Creditors Control	5 000
– Discount Expense	720		Sales	72 000	Discount Exp	720
– Balance (30 June)	<u>25 000</u>		Bank	63 280		
Receipts from Debtors	\$ 63 280		Balance	25 000		

The area in which students often failed to gain marks in this question was the calculation of the Discount Expense. Omitting the contra entry was treated as a consequential error from Question 2.2.1.

Students were awarded partial marks for correctly calculating credit sales, the contra entry and/or the discount expense.

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2.2.3

Marks	0	1	2	3	4	5	6	Average
%	39	15	14	14	10	5	2	1.8

Forbes Furnishings Cash Budget (extract) for the Quarter Ended 30 June 2007

Cash Payments	\$
Creditors/Payments to Creditors	89 000
Interest on Loan	2 500
Drawings	14 000
Loan	5 000
Prepaid Advertising	(1 400) 10 850
Advertising	(9 450)
Wages	16 900
Accrued Wages	1 000
Cash Purchases of Stock	24 000
	163 250

Students performed poorly in this question. Although it was pleasing that common mistakes of past examinations (including Depreciation or the Discount Expense) were not as common, students' responses demonstrated that there are still some areas that need improvement.

When listing wages, the amount for Accrued Wages needed to be identified separately. When listing the amount for advertising, only one amount – Prepaid Advertising – was to be shown; however, it was recognised that the information relating to Advertising could be interpreted in two ways and thus an alternative response (shown above in brackets) was considered acceptable.

It was also noted that the Answer Booklet provided one less line than needed. Assessors were mindful of this when marking student responses and were lenient when considering omissions from the report.

2.2.4

Marks	0	1	2	3	4	Average
%	31	8	15	21	24	2.1

Forbes Furnishings Budgeted Statement of Financial Performance (extract) for the Quarter Ended 30 June 2007

Other Expenses	\$
Discount Expense	720
Rent	12 000
Depreciation – Fittings	4 000
Interest on Loan	2 500
Advertising	9 450
Wages	18 900
	47 570

In this question students often separated Wages into the Wages actually paid and Accrued Wages; however, this is incorrect in the Budgeted Statement of Financial Performance. Prepaid Advertising and Advertising were often treated in the same manner, which again indicated a lack of depth of knowledge amongst students. This area will continue to be examined and students need to be aware of the correct treatment of accrued and prepaid items in reports.

This question also saw some students include aliens such as Purchases of Stock and Loan Repayments.

2.2.5

Marks	0	1	2	Average
%	64	26	10	0.5

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Forbes Furnishings Budgeted Statement of Financial Position (extract) as at 30 June 2007

Current Liabilities	\$
Creditors Control	29 000
Accrued Wages	2 000
Bank Loan	20 000

This question was not handled well by students. Students were awarded one mark for Creditors Control/Accrued Wages and one mark for the loan. Many students did not calculate the amount of the loan correctly and hence did not gain full marks. Some students also include Bank Overdraft; however, the information provided stated that Bank had a debit balance, so this was incorrect.

2.2.6

Marks	0	1	2	Average
%	32	30	38	1.1

During the quarter ended 30 June 2007, Noel should use the budgets to:

- benchmark performance
- detect adverse trends early
- compare against actual figures to determine areas in need of attention
- plan and control.

This question was answered reasonably well. Many students gained one mark by discussing the use of budgets to prepare Variance reports. However, many of these students failed to go on to discuss identifying problem areas and/or taking remedial action. Students must 'finish off' their responses if they wish to gain full marks.

2.3.1

Marks	0	1	2	3	Average
%	37	16	19	29	1.5

GENERAL JOURNAL

GJ 12

Date 2007	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$
31 Dec	Accrued Interest Revenue		1 400			
	Interest Revenue			1 400		
N: Interest earned but not yet received. March Bank Statement						

This question was handled reasonably well. Student errors tended to be in the area of titles in the General Journal. Students must write the full account title in the General Journal.

It has been standard practice that when General Journal entries require a narration, a document number will be provided; in this case a Bank Statement was provided (Bank Statements are identified in the study design as a document).

2.3.2

Marks	0	1	2	3	Average
%	58	17	14	11	0.8



Cash Receipts Journal

CRJ 4

Date 2008	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
31 Mar	Investment			82 400						80 000
	Accrued Interest Revenue									1 400
	Interest Revenue									1 000

This type of question has appeared in examinations in the past, and past Assessment Reports have directed students to separate all three items but provide only the total amount in the Bank column. However, students did not handle the question well. The information provided to students was clear, and it was therefore disappointing to see the item referred to as 'Term Deposit' rather than 'Investment'. This was one of many title errors in this question. Students were penalised a maximum of one mark for incorrect titles and one mark for separating all three entries in the Bank column. Errors in amount were not considered incorrect if the amount was consequential from Question 2.3.1.

2.4.1

Marks	0	1	2	Average
%	52	36	12	0.6

Sales Turnover is an indicator of profitability because it represents how often/efficiently the business' assets generate sales.

- It is improving, therefore the business is improving its profitability.
- It is less than the industry average, so the business is not as profitable as others.

In this question students needed to state what Sales Turnover indicates **and** use the information provided to comment on the profitability of the business. Students could compare the ratio for the business for the two periods and state that profitability was improving, or compare the ratio with the Industry Average and state that the profitability of the business is not as high as the Industry Average.

One mark was allocated for indicating what Sales Turnover represents and one mark for assessing whether it has improved or not. Many students defined profitability and this was not appropriate.

2.4.2

Marks	0	1	2	Average
%	49	22	29	0.9

The Return on Assets can decrease in 2007 despite a significant increase in the Sales Turnover because:

- of a decrease in the margin on sales
- the Return on Sales (ROS) has worsened due to poor expense control.

As mentioned previously, in ratio-based questions students should examine the numerator and denominator in order to find an appropriate response. If students had done so in this question they would have realised that Total Assets are in both ratios and therefore any response that included a discussion of the change in Total Assets would be inappropriate. The best approach for students would have been to discuss an increase in expenses.

2.4.3

Marks	0	1	2	3	Average
%	69	17	8	7	0.6

Reasons why comparing the Return on Assets of a new business with that of existing businesses can be affected by accounting principles included:

- Reporting Period – the business may have a different length for the reporting period; for example, a quarter not one year
- Going Concern – the business is new and therefore its results would not be as good as more established businesses. As the business is expected to continue indefinitely, its performance would be expected to improve over time
- Historical Cost, Reporting Period, Going Concern – new businesses will more likely operate with new assets (higher cost base), although it could also be argued that the new assets will operate more efficiently (i.e. higher profits).

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This was the most difficult question on the examination paper, and students often struggled to link an accounting principle to an explanation. A number of appropriate responses were accepted.

2.4.4

Marks	0	1	Average
%	68	32	0.4

Other limitations (other than being a new business) of ratio analysis include:

- different businesses may adopt different accounting methods, or within one business the accounting methods may not be applied consistently each accounting period
- it is based on historical data
- the businesses may be in different geographical locations
- the size of the businesses may differ
- the nature of the goods sold may differ.

This was a straightforward question to finish the examination. Students who attempted the question were generally able to provide a logical response.