2017 VCE Accounting written examination report

General comments

The 2017 VCE Accounting examination consisted of eight questions in total, with most questions containing subparts. A feature of this examination was two questions requiring students to interpret information presented in graph format. Another question required business documents to be interpreted before making entries in a ledger account. Three questions required justification of answers and there were two ‘discuss’ questions. There were also several ‘explain’ questions and questions that required students to record information in stock cards, journals and ledger accounts.

Misreading of questions was a significant issue. For example, Question 5c. required students to discuss how depreciation breaches a qualitative characteristic of accounting but is supported by another qualitative characteristic and an accounting principle. Some students justified the inclusion of depreciation in an Income Statement but did not mention how it breaches a characteristic. All aspects of the question needed to be covered in order to score full marks. Similarly, in Question 8d., students were required to explain how budgeting improves control within a business. A significant number of responses covered the planning aspect of budgeting but did not mention the word ‘control’ or explain how it is achieved. Key words included in theoretical questions should always be noted so that students can target in their response the specific section of the study design being assessed.

Question 4 focused on two financial indicators: the Return on Assets and the Return on Owner’s Investment. The focus of this question was: how can the Return on Assets be the same, yet the Return on Owner’s Investment is substantially different? Lower-scoring responses to this question often provided a rote-learned definition of how these two indicators are calculated. Rote-learned responses are not usually sufficient to gain full marks for such questions; students need to demonstrate their knowledge of such indicators and why they can be different, and this question required students to make the link between the debt ratio and the Return on Owner’s Investment. Many responses did not mention the level of debt as part of their answer.

Some questions posed difficulties for some students. For example, the purpose of a Pre-adjustment Trial Balance was the focus of Question 5a., having debits equal credits and identifying recording errors; however, some students stated that the Pre-adjustment Trial Balance is used to assess business performance, which is not its purpose. Another technical error made by some was in relation to cash flows, as shown by the graph in Question 7. Some students used profit and cash surplus as interchangeable terms; however, cash and profit are two totally different concepts and in a discussion about performance these terms should not be used interchangeably.

Some students could not balance a ledger account appropriately, including carrying down the balance to the opposite side of the account, with the date being the first day of the new reporting period. However, most students were well versed in and demonstrated correct accounting procedures, including the use of journals and ledgers and the underlying theory behind the use of such systems.

Specific 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 more or less than 100 per cent.

Question 1a.

Marks	0	1	2	3	4	Average
%	6	11	21	29	33	2.8

Stock Card

Product: XT100 BMX bike										**Cost Assignment Method: FIFO**
Date 2017	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 March	Balance							10	160	1 600
3 March	Inv. 234				4	160	640	6	160	960
9 March	Inv. 242				2	160	320	4	160	640
12 March	Inv. 670	10	175	1 750				4	160	640
								10	175	1 750
16 March	CrN 243	1	160	160				5	160	800
								10	175	1 750
20 March	Rec 9877				2	160	320	3	160	480
								10	175	1 750
23 March	Memo 122				3	20	60			
					10	35	350	13	140	1 820

One mark each was awarded for the four entries in the Stock Card.

Common errors on Question 1a. were:

- not including the delivery charge of $5 per bike on 12 March
- recording the sales return on 16 March in the 'Out' column
- omitting the entry on 23 March.

Most students were awarded some marks for this question, although many had difficulty with the entry for the stock write-down.

Question 1b.

Marks	0	1	2	Average
%	26	28	46	1.2

Justification: This cost is incurred in order to have the bikes in a condition ready for sale. It is also possible to be allocated in a logical way to each individual bike. Therefore, the delivery should be treated as a product cost, as the amount is significant and would likely affect the decision-making of management.

Question 1c.

Marks	0	1	2	3	Average
%	21	10	11	58	2.1

YZ Sportz
General Journal

Date 2017	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
16 Mar.	Sales Returns	380			
	GST Clearing	38			
	Debtors Control		418		
	Debtor – B West				418
	Stock Control	160			
	Cost of Sales		160		

One mark each was awarded for:

- the entries to Sales Returns and GST Clearing
- the entries to Debtors Control and the subsidiary account for B West
- the entries to Stock Control and Cost of Sales.

This question elicited a variety of responses. Some students made a credit entry to the GST Clearing account, while others reversed the entry for Stock Control and Cost of Sales. A common error made by some students was to treat the transaction as a purchases return, rather than a sales return.

Question 1d.

Marks	0	1	2	3	Average
%	27	13	26	35	1.7

Accounting principle: conservatism

Explanation: With a new model coming out, the demand for the older model is likely to decrease and customers will not be prepared to pay as much for them. Conservatism demands that this loss in value needs to be recognised as soon as it is probable in order to avoid overstating the value of stock control in the Balance Sheet. This would also avoid overstating the profit earned for the reporting period.

One mark was allocated for the accounting principle and two marks for a valid explanation.

Most students demonstrated good understanding, although some students stated a qualitative characteristic rather than an accounting principle.

Question 1e.

Marks	0	1	2	Average
%	41	30	29	0.9

Working space

Quantity sold = 4 + 2 + 2 = 8 units

Sales Returns = 1 unit

Sales Revenue = 7 × $380 or 3 040 – 380

Net Sales Revenue for XT100 BMX bikes during March	**$ 2 660**

Some students scored full marks for Question 1e.; however, others scored only one mark as they did not recognise that a sales return of one unit had taken place.

Question 1f.

Marks	0	1	2	3	Average
%	15	26	30	30	1.8

Explanation: Stock Cards allow the business to track the movements of individual lines of stock and can be used to identify fast- and slow-moving lines. They also assist with internal control as the balances in the stock cards can be compared with the number of units counted during a physical stocktake (which acts as a checking device) to find any discrepancies. These discrepancies could be in the form of a stock loss or a stock gain. Stock Cards can also assist management with the reordering of stock, as minimum quantities may be specified for all stock carried by the business. Counting of stock takes time, whereas Stock Cards state very clearly the number of units that should be on hand at any time of the year.

This question was handled well by the majority of students. One error that a few students made was the statement that the first-in, first-out (FIFO) inventory method ensures that stock is sold in the correct order. This is not true. FIFO is an assumption about stock flow and does not ensure that stock follows the pattern of first-in, first-out.

Question 1g.

Marks	0	1	2	Average
%	45	36	19	0.8

Positive factors included:

- the business may have decided to take advantage of the reduced costs associated with buying in bulk and has therefore built up stock levels significantly
- the business may have adopted a strategy of carrying a much larger range of products, which has left them holding more stock because they have added so many new lines.

Negative factors included:

- sales demand may be decreasing, but the business has not responded by reducing the amount of stock it carries
- the bikes are no longer as popular and the business has not reduced its quantity of slower-moving stock items.

This question elicited a variety of responses. Most mentioned similar factors to those listed above; however, some students were not awarded any marks as they talked about the implications of the slower stock turnover (such as the effect on liquidity). Students were asked to explain possible factors that caused the turnover to slow down, not implications of the slow down. Some students read the graph to indicate that stock turnover had in fact increased.

Question 2a.

Marks	0	1	2	3	4	Average
%	25	11	15	19	29	2.2

Best Chemist
General Journal

Date 2017	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
26 April	Creditors Control	341			
	Creditor – Westco			341	
	Stock Control		310		
	GST Clearing		31		
28 April	Display cabinets	5 150			
	GST Clearing	515			
	Sundry Creditor – PJ Cabinets		5 665		

Two marks each were awarded for:

- the entries for the purchases return on 26 April
- the purchase of the display cabinets from the sundry creditor on 28 April.

Common errors on the first entry included:

- treating the purchases return as a sales return
- entering the entry to Stock Control as 'Stock Returns'
- using the account title 'Purchases Returns', which does not exist.

The second entry proved difficult for some students. To create the correct entry, students needed to:

- identify the purchase as a non-current asset, rather than stock
- include the installation cost as part of the historical cost of the asset
- include the GST on the purchase
- use a Sundry Creditor account (including the creditor's name), rather than Creditors Control.

Question 2b.

Marks	0	1	2	3	4	Average
%	20	10	15	24	31	2.4

Best Chemist
Creditors Subsidiary Ledger (extract)

Creditor – Westco

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
12 Apr.	Bank	1 800	1 Apr.	Balance	3 630
26 Apr.	Stock Control/GST Clearing	341	5 Apr.	Stock Control/GST Clearing	935
30 Apr.	Balance	3 744	18 Apr.	Stock Control/GST Clearing	1 320
		5 885			5 885
			1 May	Balance	3 744

The four marks available were awarded for:

- the two entries on the credit side for Stock Control/GST Clearing
- the bank entry on the debit side
- the debit entry for Stock Control/GST Clearing
- balancing the account using correct balancing procedures, including carrying the balance down to the credit side, ready for the next period.

Correct, formal cross-references are always required in ledger accounts. These titles should not be abbreviated. Also, the entries in a subsidiary ledger account should be posted on the actual date of the transaction and should be recorded in chronological order.

Question 2c.

Marks	0	1	2	Average
%	10	29	61	1.5

Responses included comments such as:

- refuse to supply stock to the business in the future
- refuse to provide credit in the future
- remove the opportunity for discounts and special offers in the future
- unfavourably review the credit terms on offer to the customer.

One mark was awarded for each valid response to this question. Trade credit does not usually include provisions to charge interest on overdue accounts; therefore, such a response should be avoided.

Question 2d.

Marks	0	1	2	3	Average
%	29	26	26	19	1.4

Justification: Given that this business has few, if any, debtors and most sales are made for cash, the cost of setting up a Debtors Subsidiary Ledger would not be warranted; however, given that the business has numerous creditors, a Subsidiary Ledger would remove bulky detail from the General Ledger, as a control account can be used to provide a summary of creditors. The control account can also act as a checking device as the total of the Subsidiary Ledger must equal the balance of the control account. This process can also pick up recording errors and thus ensure that the accounts are recorded correctly. The more creditors supplying goods to the business, the greater the benefits of using a Subsidiary Ledger.

Some students stated that the business must have a Subsidiary Ledger to keep track of their debtors. This type of response ignored the fact that if a Subsidiary Ledger were not used, the individual accounts would be in the General Ledger; therefore, a business can make a choice between having all individual accounts in the General Ledger or, if they have numerous credit accounts, remove these accounts from the General Ledger and keep a Subsidiary Ledger for the individual accounts. If this happens, a control account in the General Ledger provides a summary of these individual accounts, thus removing unnecessary detail from the General Ledger.

Question 3

Marks	0	1	2	3	4	5	6	7	Average
%	25	9	8	8	10	13	14	14	3.4

Matua Mowers
General Ledger

GST Clearing

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
31 July	Debtors Control	30	1 July	Balance	650
	Bank	130	31 July	Debtors Control	270
	Creditors Control	400		Bank	420
	Sundry Creditor – Cals Computers	560			
	Bank	650			

This question proved to be quite problematic for some students. One mark was awarded for each correct entry in the account. The use of titles was an issue for some students. It should be noted that the only entries permitted in a GST Clearing account are:

- Bank
- Debtors Control
- Creditors Control
- Sundry Creditor.

The final entry on the debit side of the account is the payment to the Australian Tax Office (ATO) for the outstanding amount of GST. As the opening balance of the account was $650, this is the amount owing from the previous period, which would be the amount outstanding and which would be paid in July. Titles such as ATO and GST Settlement are not appropriate cross-references and were not assessed as correct entries.

Question 4

Marks	0	1	2	3	Average
%	45	24	20	12	1

Explanation: The Return on Assets can be the same for the two businesses as they may use their assets as efficiently as one another to generate profit; however, the two businesses may vary in terms of their reliance on borrowed funds. Business B relies less on the capital invested by the owner and therefore has a higher debt ratio. This results in a higher Return on Owner's Investment for Business B. Business A relies on owner's funds to a greater extent and therefore has a lower Return on Owner's Investment.

Many students responded well to this question and gave a full explanation of the relationship between the debt ratio and Return on Owner's Investment. However, lower-scoring answers did not do this, with many simply defining what the two financial indicators measure.

Question 5a.

Marks	0	1	2	Average
%	71	17	13	0.4

Explanation: The purpose of the Pre-adjustment Trial Balance is to check that the total debit entries equal the total credit entries in the General Ledger accounts. This helps to ensure that the double entry process has been done accurately and identifies if any recording errors have been made. Such errors can then be rectified before final reports are prepared.

This question was not answered well by some students. The preparation of a Trial Balance is an integral part of the recording process but it appears that some students read more into this question. Some commented on its role measuring the performance of the business and therefore missed the basic function for which the Trial Balance is completed.

Question 5b.

Marks	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Average
%	13	2	3	3	4	6	7	7	7	8	8	8	10	10	6	7.7

CLU Lipsticks
General Journal

Date 2017	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 Jun.	Depn of Vehicle	9 625			
	Acc. Depn of Vehicle		9 625		
30 Jun.	Accrued Interest Revenue	540			
	Interest Revenue		540		
30 Jun.	Rent Expense	3 600			
	Prepaid Rent Expense		3 600		
30 Jun.	Bad Debts	712			
	Debtors Control		712		
	Debtor – Chillo Cosmetics				712
30 Jun.	Wages	280			
	Drawings		280		
30 Jun.	Advertising	160			
	Stock Control		160		
30 Jun.	Stock Loss	380			
	Stock Control		380		

This question elicited a variety of responses. Some students reversed some of the entries and the amount for depreciation was incorrectly calculated in many cases. Some students omitted the Bad Debts entry in the Subsidiary Ledger.

Question 5c.

Marks	0	1	2	3	4	5	6	Average
%	26	10	11	14	17	13	9	2.6

Discussion: Depreciation requires an estimation of both the useful life and residual value of a non-current asset. These are only estimates and cannot be backed up or verified by a source document. This may lead to an inaccurate expense amount for depreciation, which may result in either a profit or a loss on the disposal of the non-current asset when it is eventually sold. Therefore, by including depreciation in an Income Statement the demands of reliability cannot be satisfied.

However, an asset helps the business to earn revenue during its useful life and relevance would suggest that the asset should be expensed gradually over its life as it is earning revenue over this time. It is vital that an accurate profit figure is determined for the reporting period, and to meet the demands of relevance non-current assets should be depreciated in order to meet this objective. Depreciation is a relevant expense and therefore it should be reported in the Income Statement. The reporting period principle supports this practice, as expenses for a period should be matched against the revenue generated for that specific reporting period.

Leaving depreciation expense out of the financial reports until the end of its life would lead to assets and profits being overstated and therefore would have a significant impact on decision-makers when evaluating the performance of the business.

This question provided a focus on depreciation and its place in an Income Statement. Many students responded well to the question and discussed both characteristics and the principle involved; however, some responses were inaccurate and discussed the valuation of assets in the Balance Sheet. This was not required for this question and subsequently such responses did not score well.

Question 6

Working space

<u>Cost – Residual</u>

Useful life

<u>(7500 + 1500 – 0)</u>

5

$1 800 per year and $150 per month for 13 months = $1 950

Question 6a.

Marks	0	1	2	3	4	Average
%	37	13	12	17	21	1.7

Puddles Pizza
General Ledger

Disposal of Pizza Oven

Date 2017	Cross-reference	Amount	Date 2017	Cross-reference	Amount
31 Aug.	Pizza Oven	9 000	31 Aug.	Acc. Depn Pizza Oven	1 950
			31 Aug.	Bank	5 400
			31 Aug.	Loss on Disposal of Pizza Oven	1 650
		9 000			9 000

One mark was awarded for each correct entry.

Significant errors made in response to this question included:

- not including the installation cost as part of the cost of the asset
- incorrectly calculating the accumulated depreciation of the oven
- recording a trade-in to a sundry creditor, rather than the Bank entry on the credit side
- using an incomplete title such as 'Loss on Sale'.

Question 6b.

Marks	0	1	2	3	Average
%	51	20	19	10	0.9

Explanation: The residual value and the estimated life are both estimations and it was predicted that the pizza oven would last for five years but was sold after 13 months. Therefore the loss on disposal occurred due to underestimation of the depreciation as a result of overestimating its useful life. The oven may not have been working well and could have been damaged; therefore management decided to sell it for the best price on offer, which was less than its carrying value.

Many responses to this question correctly noted the point of under-depreciation of the asset; however, some went on to state that residual value may be overestimated. As the expected residual value was stated as zero, this response was not accurate.

Question 6c.

Marks	0	1	2	Average
%	54	27	18	0.7

Explanation: The pizza oven was predicted to have no residual value because after five years it was expected to be worn out or superseded. Management may believe that after five years the revenue-earning ability of the oven would be exhausted. It may have no resale value at this time, as more efficient ovens may come on to the market. Demand for an old pizza oven may not exist and therefore the owner may expect to simply scrap the asset.

High-scoring responses to this question either referred to the asset having no revenue-earning capacity after five years of use or to technological advancements in gas ovens making older machines redundant. Lower-scoring responses tended to be statements such as, ‘zero residual value means that they expect to sell it for nothing’. Such statements did not address the question of ‘Why would a zero value be appropriate?’. A full explanation of why it would be appropriate was required.

Question 7a.

Overall, Questions 7ai. and 7aii. were generally answered accurately. Each question relied on accurate interpretation of the graphs presented.

Some students mixed up the two sections of this question and appeared to answer Question 7aii. in the space assigned to Question 7ai. and vice versa.

Question 7ai.

Marks	0	1	Average
%	24	76	0.8

Working space

Operating $ –50 000

Investing $ 25 000

Financing $ 125 000

$100 000

Net increase/decrease in cash position for the year ended 30 June 2017	$ 100 000

Question 7aii.

Marks	0	1	Average
%	47	53	0.6

Working space

–46 000 + 100 000

Cash at Bank ledger balance at 30 June 2017	$ 54 000 DR

Question 7b.

Marks	0	1	2	3	4	5	6	Average
%	18	14	17	18	15	11	7	2.6

Discussion: The increase in the bank balance by $54 000 was a positive result overall; however, this was achieved by selling non-current assets, through the owner making a capital injection of $60 000 and through taking out a loan. A business should not be relying on investing and financing activities for their cash resources, as these sources are not sustainable. The biggest issue is the net deficit in operating activities and this must be addressed for the future success and survival of the business. Further investigation would be required to establish why a shortfall of cash is occurring in the operations of the business. It is a normally expected that the operating activities of a business will generate sufficient cash to fund both the investing and financing activities of the business. In this case the opposite appears to be occurring; this does not indicate a positive outlook for this business. The owner did not have any drawings during this reporting period; however, this may not be sustainable in the long term, as most small business owners rely on their businesses to generate cash for their own use. The fact that financing activities are positive indicates that additional loans have been taken out and therefore represents an increase in liabilities. These debts will need to be repaid in the future, with these repayments having a negative impact on the future cash flows of the business. Interest payments will also have an effect on operating outflows. The only positive for this business at the moment is that the owner has noted that a profit has been earned; however, until the operating cash flows return to a positive result, the concerns for the future of the business will remain.

A range of responses was given, with some excellent responses prepared. Students are reminded that the above response is a sample answer and alternatives approaches may be considered in ‘discuss’ questions.

Question 7c.

Marks	0	1	2	3	4	Average
%	27	15	23	15	20	1.9

Appropriate responses included the following.

Justification:

- Review stock cards and identify fast- and slow-moving lines and delete slow-moving stock. Focus on the faster turnover items to generate additional sales and increase cash flow.
- Examine control strategies for cash payments such as wages, office expenses and delivery expenses. Management should review spending levels and restrict spending if possible to reduce cash outflows and keep cash in the business.
- As the business now sells on credit, discounts should be offered to debtors to encourage prompt payments. This should help increase cash inflows.
- When buying stock on credit, the business should use the full extent of credit terms on offer. This helps to retain cash in the business for longer and will help improve liquidity.

This question specified two strategies, and students are advised to select their two strongest answers and explain them fully. Students are advised not to use dot points and then list, for example, four or five strategies.

Question 8a.

Marks	0	1	Average
%	78	22	0.2

Working space

Creditors Control

Opening Balance 0 + Purchases of stock $130 000 + GST $13 000 – Balance $15 000 = $128 000

5% of $128 000 = $6 400

Discount Revenue for the six months ending 31 December 2018	**$ 6 400**

Responses to this question generally demonstrated the ability to determine the discount figure through either the method shown above or through a reconstruction of the creditors account. However, the question indicated that discounts are always taken, so the amount of $128 000 had to be determined and then 5% of this amount found.

Question 8b.

Marks	0	1	2	3	4	5	6	7	8	Average
%	22	9	9	9	8	9	12	13	8	3.7

Tippy Toys
Budgeted Income Statement for the six months ending 31 December 2018

	$	$
Revenue		
Sales		210 000
Less Cost of Sales		105 000
Gross Profit		105 000
Plus Other Revenue		
Discount Revenue		6 400
		111 400
Less Expenses		
Wages	42 000	
Advertising	5 000	
Insurance	4 200	
Rent Expense	12 000	
Depreciation of Shop Fittings	1 500	64 700
Net Profit		$46 700

Most students demonstrated sound knowledge of the format of the Income Statement as specified by the study design. Common errors included:

- an incorrect amount for Sales
- omission of the Discount Revenue
- an incorrect amount for Wages, which was specified as $7000 per month × 6 months
- incorrect amounts for Advertising, Insurance, Rent Expense or Depreciation
- the inclusion of prepaid items, which do not belong in the Income Statement.

Question 8c.

Marks	0	1	2	3	4	Average
%	47	10	12	15	16	1.5

Tippy Toys

Budgeted Balance Sheet (extract) as at 31 December 2018

	$	$
Current Assets		
Stock Control	25 000	
Prepaid Advertising	6 000	
Prepaid Insurance	4 200	
Prepaid Rent Expense	4 000	

One mark was allocated for each current asset. Some responses included cash at bank and/or GST Clearing, which were specifically noted as having credit balances and are therefore liabilities.

Question 8d.

Marks	0	1	2	Average
%	64	25	11	0.5

Explanation: Budgets assist with control because the actual results can be compared with the budgeted data. Reasons for the variations in spending can be explored, and employees can be held to account for these results and the results provide them with targets for the future. Budgets can be used to help control spending in order to achieve a satisfactory profit result in the future.

This question focused on the controlling aspect of budgeting. A significant number of responses focused on how budgets help plan for the future but did not address how budgets improve on control within a business.