

2020 VCE Accounting examination report

General comments

In 2020 the Victorian Curriculum and Assessment Authority produced an examination based on the *VCE Accounting Adjusted Study Design for 2020 only*. The changes involved a reduction in the topics from Unit 4. The examination consisted of 10 questions, each containing several components.

The first question required students to use the working space to determine both the closing inventory and the total value of inventory after applying the lower of cost and net realisable value inventory valuation method. Use of the working space allowed students to attain some marks for practical questions even if they did not get the final answer correct. Many students did not take into account the free delivery when calculating the net realisable value, as it could not be separately linked to each box of sunglasses. This was an example of a question being presented differently to those in previous examinations. It is important that students be prepared for questions that use different formats.

The recording of transactions using the General Journal appeared within various questions on this examination. When provided with the amount required for the balance day adjustment, students generally performed well and displayed sound knowledge of the use of debit and credit. Students did not perform as well, however, when required to record a source document transaction or balance day adjustments that required calculation. The use of titles was a particular area of concern with Accrued Wages often referred to as Wages Owing, and depreciation missing the name of the non-current asset. Attention to detail is important in practical questions, so regular practice is essential to the improvement of students' responses.

'Discuss' questions are a regular feature of the accounting examination, so students should be prepared for these. When provided with information such as accounting indicators, it is essential that students look beyond the numbers and from more than one perspective when discussing the scenario provided. They should also consider the industry in which the business operates and include any information that the owner could have provided to allow them to provide an in-depth discussion.

Accounting reports were examined, with students being required to prepare both an Income Statement and an extract of a Cash Flow Statement, requiring only Operating Activities. This was problematic for many students and highlighted issues with both titles used in reports and balance day adjustments.

When asked to compare cash v profit, students were specifically required to use the business provided. Many students provided generic responses and ignored the constraints, such as the business generating all sales on a cash basis, in their answer.

Students were asked to describe 'entries' for cross-reference provided in the Disposal of Computers General Ledger account. Many did not read the task correctly and simply described the account referred to in the cross-reference or identified the General Journal entry. The question required students to describe the entry that led to the General Journal that was recorded.

Questions 9 and 10 were both based on graphical representations. Many students performed poorly when required to use graphs to provide reasons for the changes in Return on Owners Investment and the Debt Ratio. Most students simply repeated the information provided in the graphs rather than consider the relationships between the elements and indicators. Very few students were able to identify that drawings was the reason capital decreased in 2020, despite profit remaining the same as the previous year. Teachers and students are therefore encouraged to devote more time to analysis of graphs.

The Reconstruction of General Ledger accounts is assessable throughout Units 3 and 4, not only within budgeting. When reconstructing a General Ledger account, students need to ensure the correct titles and dates are used.

The 2020 examination did not include a question with a focus on ethical considerations. When undertaking the examination, it is important that students answer the specific question being asked and not what they were hoping would be assessed. The examination cannot cover all components of the course, although all are potentially assessable. Many students used the accounting element questions to provide ethical considerations responses despite the question not requiring this. This also indicated a weakness in an understanding of accounting assumptions, qualitative characteristics and accounting elements. Many students were not able to define faithful representation to justify the accountant's statement relating to the purchase of a non-current asset.

When asked to explain the accounting element that is met by donations, most students were not able to identify expense. While students were able to identify elements in reports, many seemed to be unaware that they were accounting elements. Therefore, when teaching revenue, expenses, assets, liabilities and owner's equity it is important that teachers use the term 'accounting elements' to describe them.

Specific information

This report provides answers or an indication of what answers may have included. Unless specifically 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	Average
%	38	34	25	3	0.9

Students were required to use the FIFO cost assignment method to determine the closing inventory. They were not required to complete an inventory card, although they were required to follow the inventory card process to determine the closing value of inventory. One mark was awarded for each of the different cost price and units held.

Many students were able to use the FIFO cost assignment method, although most students found the allocation of the labels as a product cost and the inventory loss difficult.

Working Space	
16 x 450 = 7200	
5 x 435 = 2175	
32 x 415 = 13 280	
Inventory at 31 March 2020 as per physical stocktake	\$22 655

Question 1b.

Marks	0	1	2	Average
%	66	29	6	0.4

Students were required to calculate the total value of inventory at 31 March 2020 after applying the lower of cost and net realisable value inventory valuation method.

Most students struggled to identify that the free delivery needed to be subtracted from the estimated selling price of the total amount of boxes on hand.

Working Space	
(400 x 53 boxes) – (200)	
21 200 – 200 = 21 000	
Inventory valuation at 31 March 2020	\$21 000

Question 1c.

Marks	0	1	2	3	4	Average
%	33	13	19	14	21	1.8

Two marks were allocated for each General Journal entry. Many students were able to prepare the General Journal entries, although they did not use the information calculated in earlier questions to determine amounts of both the inventory gain and inventory write-down.

General Journal

Date	Details	Debit	Credit
2020			
March 31	Inventory	830	
	Inventory Gain		830
March 31	Inventory write down	1655	
	Inventory		1655

Question 1d.

Marks	0	1	2	3	Average
%	50	11	11	28	1.2

The donation of inventory is considered an expense. There was a decrease in assets (outflow of inventory), which resulted in a decrease in owner's equity.

This question was generally not handled well. A significant number of students were unable to identify that the correct accounting element was an expense. Responses included owner's equity, advertising and donations. Some students mistakenly thought this was an ethical considerations question despite its focus on accounting elements.

Question 2a.

Marks	0	1	2	Average
%	6	12	82	1.8

Many students provided excellent responses to this question. Most were able to describe a credit purchase of eight plate sets (inventory) from the supplier Wood n Set. Some students, however, were not able to determine that the source document represented a credit purchase by Kitchen Central.

Question 2b.

Marks	0	1	2	Average
%	43	27	30	0.9

General Journal

Date	Details	Debit	Credit
2020			
April 30	Accounts Payable	4400	
	Discount Revenue		132
	Bank		4268

While this appeared to be a straightforward payment from Kitchen Central to Wood n Set, it was a challenging question for many students. The question did not require students to record a credit sale, although this was a common response.

One mark was allocated for accounts payable and one mark for bank and discount revenue.

Question 3

Marks	0	1	2	3	4	5	6	Average
%	23	20	19	17	13	6	2	2.0

Students were provided with three years of data relating to the gross profit margin and net profit margin of Music Times, as well as information about sales remaining constant.

When discussing profitability, students need to consider the ability of the business to generate profit compared to a basis such as sales, assets or owner's equity. In this question, the increased gross profit margin with sales remaining constant indicated that Music Times had increased its gross profit by increasing mark-up. The increase in mark-up could have been due to increased selling prices or improved control over the cost of inventory.

Music Times had also experienced a decline in its net profit margin, which would have resulted in a decrease in net profit. This decrease in net profit margin is indicative of unfavourable expense control that worsened over the three-year period.

High scoring responses to this question discussed the difficulties of determining the profitability of Music Times because of the lack of information provided, such as other indicators and non-financial information.

Students need to ensure they read the question carefully. In this instance, the question included elements that could have been used to develop a stronger response. For example, many students responded correctly regarding the gross profit margin; however, the constraint in the question regarding the sales remaining constant meant that the students needed to recognise the favourable trend in Gross Profit Margin was most likely due to the better control of cost of sales expenses, such as a cheaper supplier or an increased mark-up.

Question 4a.

Marks	0	1	Average
%	36	64	0.6

General Journal

Date	Details	Debit	Credit
2020			
June 30	Wages	1200	
	Accrued Wages Expense		1200

Most students were able to use the information provided in the question (\$1200 wages) to complete the General Journal. Many correctly included wages of \$1200 but used incorrect titles, such as Wages Owing instead of Accrued Wages.

Question 4b.

Marks	0	1	2	3	Average
%	17	23	36	24	1.7

The accounting assumption was Accrual Basis.

The wages have been incurred during the reporting period and must be included in the wages expense for the period in order for net profit to be calculated. They must also be paid in the future, so there needs to be recognition of that as a current liability.

Question 4c.

Marks	0	1	2	3	Average
%	16	13	19	52	2.1

General Journal

Date	Details	Debit	Credit
2020			
July 31	Accrued Wages Expense	1200	
	Wages	12 600	
	Bank		13 800

Most students were able to correctly record the payment of wages by Mayfair Furniture. It was important that students use the accrual that they identified in Question 4a. Titles were once again an issue, with many students referring to Wages Owing rather than Accrued Wages Expense.

Question 4d.

Marks	0	1	2	3	Average
%	20	28	31	21	1.5

Faithful representation is a fundamental qualitative characteristic required by financial information within reports. Recording and reporting must faithfully represent the substance of a real-world economic event or transaction. The real-world event in this case was the purchase of a non-current asset for use by employees in the office administration area. Resale as Inventory is speculative, so the business should only record it as Inventory if and when management decides to make it available for resale like the other inventory.

This question provided a range of responses. Many students focused on the real-world economic event and ignored the key areas of the faithful representation definition, which focus on the need of accounting reports to be free from bias and error. It was important to use definitions to justify the accountant's statement. It is recommended that time be invested in revising the qualitative characteristics.

Question 5a.

Marks	0	1	2	3	4	5	6	7	8	9	10	11	Average
%	33	9	7	6	6	4	4	5	5	8	7	6	3.9

General Journal

Date	Details	Debit	Credit
2019			
Dec 31	Insurance Expense	3400	
	Prepaid Insurance Expense		3400
Dec 31	Depreciation – Equipment	9900	
	Accumulated Depreciation – Equipment		9900
Dec 31	Accrued Interest Revenue	1000	
	Interest Revenue		1000
Dec 31	Sales	350 000	
	Interest Revenue	1000	
	Profit & Loss Summary		351 000
Dec 31	Profit & Loss Summary	286 300	
	Cost of Sales		195 000
	Insurance Expense		3400
	Wages		78000
	Depreciation – Equipment		9900

Five general journal entries were required for this question, with the initial four being allocated two marks and the final entry three marks.

Common errors included:

- incorrect calculation of the insurance expense
- incorrect titles including Depreciation rather than Depreciation – Equipment
- incorrect calculation of interest revenue
- reversal of some entries, especially the closing entries.

Question 5b.

Marks	0	1	2	3	Average
%	33	18	26	23	1.4

Revenue and expense accounts are closed each period as the period assumption requires profit to be determined on a periodic basis with a maximum period of 12 months. Revenue and expense accounts are temporary owner equity accounts and are closed back to capital using the profit and loss summary account. The going concern assumption assumes the business will continue into the future, so asset, liability and owner's equity accounts are carried forward to the following period through the balancing procedures.

While not required to refer to accounting assumptions, students who had an in-depth understanding of accounting terminology were able to provide a detailed response to this question.

Question 6a.

Marks	0	1	2	Average
%	17	26	57	1.4

This question was handled very well by most students. The GST on the sale was missed by some students when calculating the amount owing that was received.

Working Space	
$(12\,000 + 1200) \times 0.6$	
7920	
Amount received from Bell Learning	\$7920

Question 6b.

Marks	0	1	2	3	4	5	6	7	Average
%	34	14	12	10	9	8	7	6	2.3

Accounts Receivable – Bell Learning

Date	Cross-reference	\$	Date	Cross-reference	\$
Aug 2	Sales/GST Clearing	13 200	Aug 30	Bank	7920
			12	Allowance for Doubtful Debts/GST Clearing	5280
		13 200			13 200

Allowance for Doubtful Debts

Date	Cross-reference	\$	Date	Cross-reference	\$
Aug 12	Accounts Receivable – Bell Learning	4800	Aug 1	Balance	3500
			31	Bad Debts	7300
Aug 31	Balance	6000			
		10 800			10 800
			Sep 1	Balance	6000

General Ledger accounts were a challenge for many students on this examination. Common errors included:

- use of incorrect dates when recording transactions such as bad debts and receipt of cash
- inclusion of GST with the Allowance for Doubtful Debts transaction
- bad debts for the month taking into account the allowance for doubtful debts already used.

Students were allocated one mark for each entry and for balancing both accounts.

Question 7a.

Marks	0	1	2	3	Average
%	29	28	22	21	1.3

- Computer: the cost price of the computers being disposed of and transferred to the disposal account/Historical cost of the old computers
- Accumulated Depreciation of Computers: transfer of accumulated depreciation that has been charged against the computer so far in its useful life
- Bank: the cash received for the computer when sold.

This question required students to describe the entries for the computer, accumulated depreciation of the computers and the bank. Many students described the accounts or provided the general journal entries. When describing the transaction students needed to consider what actually occurred to create the entry.

Question 7b.

Marks	0	1	2	3	Average
%	33	27	17	23	1.3

A loss on the disposal of the computer occurs because the proceeds were less than the carrying value at the time of disposal. This is due to an under-depreciation of the computer during its useful life resulting from its having either an overstated estimated residual value or an overstated estimated useful life.

Few students demonstrated an understanding that a loss on disposal is not the result of a cash loss but rather is due to the business under-depreciating the non-current asset. Many students incorrectly referred to the carrying value as the residual value.

Question 7c.

Marks	0	1	2	3	Average
%	48	19	16	17	1.0

The disposal of the computers would have the following impact on the financial reports:

- Cash Flow Statement: the cash proceeds of \$3000 reported as an Investing inflow
- Income Statement: an increase in expenses – loss on disposal of computer of \$2000, leading to a reduction in net profit of \$2000
- Balance Sheet: a net decrease in assets of \$2000 (cash increased by \$3000, carrying value of computers decreased by \$5000) and a decrease in Owners Equity of \$2000.

Many students did not demonstrate the entire effect of the transaction on each report. When referring to the impact on the cash flow statement, some students simply referred to cash proceeds of \$3000 and did not refer to the investing inflow.

When explaining the impact of the disposal on the balance sheet, students needed to refer to all accounts rather than just one side of the effect. Students also needed to mention the dollar value of the effect when explaining a transaction.

Question 8a.

Marks	0	1	2	3	4	5	6	Average
%	35	10	9	9	10	12	16	2.5

Accounts Payable

Date	Cross-reference	\$	Date	Cross-reference	\$
30/9	Bank	26 400	1/9	Balance	13 200
	Discount Revenue	1100	30/9	Inventory/GST Clearing	33 000
	Balance	18 700			
		46 200			46 200

GST Clearing

Date	Cross-reference	\$	Date	Cross-reference	\$
30/9	Bank	800	1/9	Balance	16 500
	Accounts Payable	3000	30/9	Bank	5600
	Balance	18 300			
		22 100			22 100

The payment to Accounts Payable required students to calculate a discount using the terms provided within the information. This was an area of difficulty for many students. Students are reminded that Reconstructions are a part of both the Unit 3 and Unit 4 courses and are not just part of budgeting.

Three marks were awarded for the Accounts Payable account and three marks for the GST Clearing account.

Question 8b.

Marks	0	1	2	3	4	5	Average
%	38	16	16	17	11	3	1.6

Rightfield Sports – Cash Flow Statement for the month ended 30 September 2020

Cash from Operating Activities	
Cash Sales	56 000
GST Received	5600
Accounts Payable	(26 400)
Wages Paid	(7100)
Interest Paid	(210)
Prepaid Advertising	(8000)
GST Payments	(800)
Net Cash from Operations	19 090

This question included balance day adjustments such as wages expense that had already been adjusted. Many students used the expense rather than the cash payment in the cash flow statement.

Advertising caused similar issues, with students also not being able to calculate GST paid on advertising.

While many students were able to allocate the accounts to the Cash Flow Statement, they were not able to correctly determine the cash paid. The Cash Flow Statement only required cash flows from operating activities. Students need to ensure that they do not include financing and investing cash flows.

Question 8c.

Marks	0	1	2	3	4	5	6	7	Average
%	35	11	12	12	12	10	6	2	2.2

Rightfield Sports – Income Statement for the month ended 30 September 2020

Revenue		
Sales		56 000
Less Cost of Sales		28 000
Gross Profit		28 000
Add Other Revenue		
Discount Revenue	1100	
		29 100
Less Expenses		
Wages	7500	
Rent	3500	
Depreciation of Motor Vehicle	1500	
Advertising	3200	
Interest Expense	30	15 730
Net Profit		13 370

Many students found calculation of interest difficult and often included cash payments such as loan repayments, which were not expenses.

Teachers and students are encouraged to revise the format of the Income Statement, in particular the use of titles such as 'gross profit', 'other revenue' and 'net profit'.

Question 8d.

Marks	0	1	2	3	4	Average
%	51	14	17	9	9	1.1

This question included constraints, including the business generating all sales on a cash basis, and required students to give two examples to explain how the business's Net Profit can be higher than its Net Cash Flows from Operating Activities.

Net profit is based on accrual concepts and only revenue earned and expenses incurred are considered. The Cash Flow Statement only includes cash in and cash out and does not consider the concept of profit under accrual accounting. The net operating cash flows include cash outflows such as prepaid rent, which in this case is greater than the advertising expense and therefore results in a higher net profit than cash flows from the operating activities.

Other examples include:

- Payments to account payables are greater than cost of sales.
- If a GST settlement has been made in August, there is no effect on profit but it reduces net cash flows from operating activities.
- Profit on disposal of asset increases net profit, but the proceeds are not recorded in net cash flows from operating activities.
- Accrued revenue will increase net profit but no corresponding cash inflow is recorded in NCFOA.

The question referred to comparing Rightfield Sports's net profit against its net cash flow from operating activities. Discounts will therefore not have an impact because they will reduce the expense or revenue by the same amount as the inflow or outflow.

Question 9a.

Marks	0	1	2	3	4	5	Average
%	32	23	20	14	9	3	1.5

This question required students to use the graphs provided to analyse the information and give reasons for the change in the Return on Owner's Investment and in the Debt Ratio.

There were a range of responses to this question, with lower-scoring students usually simply repeating the information provided in the graphs. Students need to be aware that when being asked to analyse graphs, there is no need to repeat the information provided; they instead must look for trends and relationships within the graphs.

Higher-scoring students were able to use the information to identify that Timetracker had increased its return on investment consistently over the three-year period, while net profit had remained constant from 2019 to 2020. They were then able to make the connection that capital had decreased during that time and the owner had taken drawings from the business. Students who were able to make this connection subsequently identified that the owner's increased drawings resulted in both an increase in the Debt Ratio and an increase in the Return on Owner's Investment.

Question 9b.

Marks	0	1	2	3	4	Average
%	13	14	24	23	25	2.3

This question required students to display an understanding of the advantages and disadvantages of businesses taking on debt.

Advantages include:

- Debt provides cashflow to keep a business afloat.
- Debt allows the business to purchase revenue earning assets.
- The owner can invest less in the business and receive a greater return on investment.

Disadvantages include:

- Debt requires interest to be paid.
- A business may not have the ability to service the debt.
- Debt may lead to liquidity issues.

Question 10a.

Marks	0	1	Average
%	15	84	0.8

The Cost of Sales variance is favourable.

Question 10b.

Marks	0	1	2	3	4	Average
%	25	24	28	16	8	1.6

The owner would be concerned that sales have not met the budgeted goal. The owner could then use this information to consider reasons for sales not reaching the target. They could look at the effectiveness of advertising campaigns, pricing or customer service. Once the business owner identifies the reason for lower sales, they could implement a new advertising campaign or retrain staff, which may potentially result in improved sales.

While cost of sales provided a favourable variance, this was due to decreased sales. Some students suggested the business could seek out cheaper suppliers, which would allow them to decrease their own prices and therefore increase sales.

Other answers included reviewing the budgeting process to ensure that the business is not overstating its potential sales and therefore setting unrealistic budgets.