

**GENERAL COMMENTS**

The second Accounting examination for 2008 had two distinct parts, each worth 45 marks. Each part of the examination related to a different business scenario and multiple questions were asked in relation to the businesses. Students were allowed 90 minutes to complete the paper. Approximately 70 per cent of the total marks available were for practical type questions and 30 per cent for theory-based questions. Most of the theory questions required students to write 'explain' type responses. Teachers and students are reminded that there is no pre-determined weighting between practical and theoretical type questions.

The majority of students were able to attempt most questions on the examination. The last page of the answer booklet was completed by most students; this was not the case with the June examination. A few questions proved quite challenging for some students, but it was very pleasing that most students attempted these questions and may have been awarded some marks for partially completed responses. This is evidence of good examination management and students are encouraged to always attempt questions to the best of their ability as marks are awarded for partially completed or partially correct responses.

The use of correct titles in both journals and ledger accounts remains a high priority. Students appeared to have heeded past advice in relation to using correct titles but unfortunately not in all questions on the examination. The use of titles in general journals has improved, with most students giving full, accurate titles in relation to account names. However, when preparing general ledger accounts, many students failed to use full titles and resorted to abbreviations.

An ongoing issue for many students is knowing how to respond to the key word 'explain'. This type of question appeared on eight occasions in this examination and was worth two marks on each occasion. Many students responded to these questions with one brief sentence and did not provide sufficient information to be considered for the full two marks.

It was interesting to note that the reporting period principle was part of both the June and November examinations this year. This is a timely reminder to students not to anticipate what the examiners will or will not do and to review all areas of the curriculum. All principles and qualitative characteristics of accounting may be used in questions in both the June and November examinations. They do not belong in either Unit 3 or Unit 4 and can be assessed in both examinations in relation to a broad range of topics. Students should keep this point in mind for future examinations.

**SPECIFIC COMMENTS**

For each question, an outline answer (or answers) is provided. In some cases the answer given is not the only answer that could have been awarded marks.

**Question 1 – Gary’s Guitars**

**1.1.1**

Marks	0	1	2	3	4	Average
%	10	14	21	11	44	2.7

<p><b>Stock Loss</b></p> $1 \times 120 = 120$ $1 \times 350 = \underline{350}$ $470$ <p style="text-align: right;"><b>Stock Loss \$ 470</b></p>
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<p><b>Stock Write down</b></p> $12 \times 20 = 240$ <p style="text-align: right;"><b>Stock Write down \$ 240</b></p>
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<b>Total Stock Value</b>	
Gibner Electric	20 x 250 = 5000
Gibner Acoustic	14 x 120 = 1680
Gibner Bass	12 x 200 = 2400
Gibner Electric Deluxe	14 x 350 = 4900
<b>Total Stock Value \$ 13 980</b>	

Question 1.1.1 consisted of three separate parts and students were quite inconsistent with their responses. It appeared that many students found this question fairly straightforward and, as long as they read the question carefully, they had an opportunity to be awarded full marks. Most students determined the stock loss accurately but then had difficulty calculating the value of the stock write down. After writing down some of the stock in the second part of the question, some students did not then carry the new stock value into the third part. When determining a value such as total stock value, students are strongly advised to show all workings in the box provided. Students could have still received one mark if they had two of the four dollar values correct, despite their total value being an incorrect value.

### 1.1.2

Marks	0	1	2	Average
%	41	18	40	1.1

Net Realisable Value is the estimated selling price of the stock less any costs associated with the sale, distribution or marketing of the stock.

This question generated a wide variety of responses. There were two distinct parts to the question: estimated selling price and costs incurred in selling or marketing. Poor responses often referred to costs incurred in acquiring the stock (rather than selling) and some students obviously confused the concept of product costs with the definition of Net Realisable Value.

### 1.1.3

Marks	0	1	2	Average
%	16	7	77	1.7

### General Journal

Date 2008	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
31 Dec	Stock Write Down	240			
	Stock Control		240		

This two mark question was very well answered. One mark each was awarded for the debit and credit entries. The dollar amount was carried down from Question 1.1.1 and therefore students were not penalised for this possible consequential error. Students are reminded that even if they are not sure their answer to a question such as 1.1.1 is correct, it is still important to record the same dollar value in the General Journal in this question. Blank answers in the General Journal cannot be awarded full marks for such a question. Most students used the correct titles in this question, with very few students abbreviating 'stock control' to 'stock'. It is quite pleasing to note that the majority of students knew how to record a stock loss in a General Journal.

### 1.2.1

Marks	0	1	2	3	4	5	6	Average
%	8	25	21	16	9	9	12	2.7

### Purchases Journal

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Date 2009	Creditor	Inv. No.	Stock Control	GST	Total Creditors
3 Jan	Gibner Ltd	GL23	9 210	921	10 131

## General Journal

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
3 Jan	Insurance on Delivery	180			
	GST Clearing	18			
	Creditors Control		198		
	Gibner Ltd				198

## Stock card: Item – Gibner Acoustic Deluxe

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2009										
3 Jan	GL23	20	180	3 600				20	180	3 600

It appeared that Question 1.2.1 provided a challenge for many students. This question assessed students' ability to determine the difference between a product cost and a period cost, with the **freight charge** being a product cost and the **insurance on delivery** being a period cost. Many students did not allocate these two items correctly.

Two marks were awarded for the Purchases Journal entry – one mark for the correct date, name of creditor and Invoice number and one mark for the three dollar values. It was disappointing to note that some students recorded the purchase from **Gary's Guitars**, rather than the creditor identified on the invoice as **Gibner Ltd**.

Three marks were allocated to the General Journal entry – one mark for Insurance on Delivery, one mark for GST Clearing and one mark for both the Creditors Control entry and the entry to the subsidiary account of Gibner Ltd. It was apparent that some students did not know what to include in the General Journal and either left it blank or simply repeated the entry they had already made in the Purchases Journal. The examination paper provided two separate journals; this would not occur unless separate entries needed to be made in the two records. Students should take note of this for future examinations. The challenge in this question was deciding what information should be recorded in the two journals provided.

The last part of the question involved the recording of the purchase in the Stock Card. As it was worth one mark, the complete line in the stock card had to be correct. Some students did not include the document number in the invoice column and did not receive the mark allocated. Generally, the Stock Card was handled well by most students.

### 1.2.2

Marks	0	1	2	Average
%	50	23	26	<b>0.8</b>

Period costing requires all costs to be expensed during the period regardless of the number of items sold. Product costing only expenses the costs associated with the items sold, so if the number of units sold is less than the number purchased, expenses will be lower and profit higher.

This question focused on the change in profit if product costing was used, rather than period costing. It was obvious that many students did not read this question carefully, as many students produced textbook definitions of both product costs and period costs and did not answer the question. This question did **not** ask for an explanation of the difference between product and period costs. Other students attempted to answer the question but did not stipulate the actual change in net profit and therefore did not receive the full two marks. This theory question was not handled well and is an example of how it is possible to write a lot of information that may not relate to the question posed.

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## 1.3

<b>Marks</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>Average</b>
<b>%</b>	8	6	7	4	4	4	5	8	9	14	30	<b>6.8</b>

### Sales Journal

Date 2009	Debtor	Inv. No.	Cost Price	Selling Price	GST	Total Debtors
7 Jan	Mike's Music School	GG65	1 440	2 800	280	3 080

### General Journal

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
9 Jan	Sales Returns	350			
	GST Clearing	35			
	Debtors Control		385		
	Mike's Music School				385
	Stock Control	180			
	Cost of Sales		180		
10 Jan	Creditors Control	792			
	Gibner Ltd			792	
	GST Clearing		72		
	Stock Control		720		

Many students achieved full marks, with many others making one or two basic errors in one or the other journal. Worth a total of 10 marks, this question was assessed as follows:

#### Sales Journal (two marks)

- one mark for the first part of the entry, including the cost price entry
- one mark for the second part of the entry, including selling price, GST and the total to debtors.

#### Common errors in the Sales Journal included:

- not recording the cost price of \$1440 (\$180 per unit). Although some students recorded \$180 in the stock card in the previous question, they used \$150 in the Sales Journal as the cost price of the stock
- incorrectly recording the name of the debtor – abbreviations such as 'MMS' were not accepted. Students are strongly advised to use the full name of the customer. Some students again recorded the sale to Gary's Guitars, rather than the debtor's name.

#### Sales Returns in the General Journal (five marks)

- one mark for the Sales Returns entry
- one mark for the GST clearing entry
- one mark for both Debtors Control and the subsidiary entry for Mike's Music School
- one mark for the Stock Control entry
- one mark for the Cost of Sales entry

Six different titles were required in this part of the journal. Many students did not gain marks because of incomplete entries. Common errors were:

- incorrect cost price being used (\$150, rather than \$180)
- omitting the name of the debtor and simply using 'Debtors Control'
- omitting the GST clearing amount.

#### Purchases returns in the General Journal (three marks)

- one mark for both Creditors Control and the subsidiary entry for Gibner Ltd.
- one mark for the GST Clearing entry
- one mark for the Stock Control entry.

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The section relating to purchases returns proved problematic for some students, with some students reversing all the entries. GST was again omitted or incorrectly determined and some students also omitted the name of the creditor. Some students determined the incorrect value of the purchases return by applying the cost price to only three units, when four units should have been used. It should be noted that consequential errors flowed throughout Question 1.3 from the Stock Card prepared in Question 1.2.1. If a student recorded the incorrect cost price of stock as \$150 in Question 1.2.1, this value should have been used throughout Question 1.3 and was not penalised. In summary, this was a well answered question with many students achieving full marks.

## 1.4.1

Marks	0	1	2	3	Average
%	53	20	9	18	1

### Depreciation

New shop fittings:  $8\,000 \times .1 \div 2 =$  \$ 400 (6 months)  
 Sold shop fittings:  $4\,000 \times .1 \times .75 =$  \$ 300 (9 months)  
 Remaining shop fittings:  $21\,000 \times .1 =$  \$ 2 100 (12 months)

**Depreciation Expense: \$ 2 800**

This question was not handled well by the majority of students. Students needed to do three separate calculations and one mark was allocated for each. Students are strongly advised that depreciation calculations may be part of both the June and November examinations. This topic is an integral part of determining profit or loss on disposal and students should be prepared to make calculations of depreciation for part of a reporting period.

## 1.4.2

Marks	0	1	2	3	4	5	6	7	Average
%	33	11	9	8	10	12	11	7	2.7

### Shop Fittings

Date 2009	Cross Reference	\$	Date 2009	Cross Reference	\$
Jan 1	Balance	25 000	Sep 30	Disposal of Shop Fittings	4 000
Jul 1	Sundry Creditor – Ace Shop Solutions	8 000			

### Accumulated Depreciation – Shop Fittings

Date 2009	Cross Reference	\$	Date 2009	Cross Reference	\$
Sep 30	Disposal of Shop Fittings	1 100	Jan 1	Balance	7 500
			Dec 31	Depn of Shop Fittings	2 800

### Disposal of Asset

Date 2009	Cross Reference	\$	Date 2009	Cross Reference	\$
Sep 30	Shop Fittings	4 000	Sep 30	Acc Depn of Shop Fittings	1 100
				Bank	2 000
				Loss on Disposal of Shop Fittings	900

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As students experienced difficulties with Question 1.4.1, it may have been expected that many students would then struggle with Question 1.4.2. However, to their credit, many students still attempted the entries in the three general ledger accounts. The accounts were assessed as follows:

- Shop Fittings (two marks) – one mark for each entry
- Accumulated Depreciation of Shop Fittings (two marks) – one mark for each entry
- Disposal of Shop Fittings (three marks) – one mark for shop fittings and accumulated depreciation of shop fittings, one mark for the bank entry and one mark for the loss on disposal of shop fittings.

Unfortunately students made many title errors. Common errors included:

- 'Creditors Control' rather than 'Sundry creditor Ace Shop Solutions'
- 'Depreciation Expense' rather than 'Depreciation of Shop Fittings'
- 'Loss on Disposal' rather than 'Loss on Disposal of Shop Fittings'.

Despite calculating the correct depreciation in Question 1.4.2, some students recorded a different amount in the ledger account.

### 1.4.3

Marks	0	1	2	Average
%	59	20	21	0.7

A loss on disposal is due to under-depreciation occurring over the life of the asset due to overestimating either the useful life or the residual value of the asset.

Although this question was answered very well by some students, many could not explain the link between the estimates involved in allocating depreciation and the Loss on Disposal recorded in Question 1.4.2. Students are advised to review the way depreciation is calculated and the fact that it is based on estimates. Poor answers simply explained that profit/loss on disposal is caused by over/under-depreciation. This approach was not awarded any marks as the question specifically referred to the student's response in Question 1.4.2. It should also be noted that if a student recorded a profit on disposal in Question 1.4.2, they would then be expected to explain over-depreciation in Question 1.4.3 as this becomes a consequential error.

### 1.5.1

Marks	0	1	2	Average
%	24	43	33	1.2

Debtors Turnover details how efficiently or how well the business collects debts from credit customers or manages its debtors or credit accounts. The lower the number of days, the more efficient they are in relation to management of debtors.

This question produced a variety of responses. Many students simply stated that the Debtors Turnover tells management how long it takes to collect its debts, which does not fully answer the question as stated. Students are reminded to read theory questions carefully. To gain full marks on this question, students needed to explain how the Debtors Turnover is used to measure efficiency. It was essential that students referred to the management of credit accounts or the ability of management to collect from credit customers.

### 1.5.2

Marks	0	1	2	Average
%	54	34	12	0.6

Cash Flow: the business is going to take longer to repay its creditors. This means that the business will be holding its cash for longer or retaining cash within the business. This is a positive impact on the cash flows of the business.

Profitability: in taking longer to pay creditors the business is not taking advantage of any discounts offered, thus lowering revenue and profit.

This question had two distinct parts – one relating to cash flows, the other to profitability. Rather than respond to the question asked, many students stated that it is unfavourable to take longer to pay creditors as they may cut off supply. This type of response did not address the two parts of the question. Many students gained one mark by addressing one

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of the two issues, sometimes with very lengthy responses. By not addressing both parts of the question such responses could only gain one of the two marks available.

### 1.5.3

Marks	0	1	2	3	Average
%	22	17	20	41	1.9

Improve

As both ratios are expected to improve (reduction in number of days) then the business can expect cash to be received more quickly from debtors and stock to be turned into sales, and therefore cash, at a faster rate.

Students needed to circle the word 'improve' to receive one mark. They then had to explain why the indicators suggested an improvement in performance. Students needed to refer to both debtors and stock in the explanation to receive full marks. Many students based their comments on the data presented for 2008 and 2009, rather than the budgeted year of 2010.

### Question 2 – Baxter's Beds

#### 2.1.1

Marks	0	1	2	3	4	5	6	7	8	9	10	Average
%	19	5	4	5	7	8	10	12	12	12	6	5.2

#### DEBTORS CONTROL

Date 2009	Cross reference	\$	Date 2009	Cross reference	\$
1 Jan	Balance	24 500	31 Dec	Discount Expense	5 500
31 Dec	Sales	396 000		<b>Bank</b>	<b>385 000</b>
				Balance	30 000
		<b>420 500</b>			<b>420 500</b>

#### CASH AT BANK

Date 2009	Cross reference	\$	Date 2009	Cross reference	\$
1 Jan	Balance	14 300	31 Dec	Cash Payments	630 600
31 Dec	Cash Receipts	650 000		<b>Balance</b>	<b>33 700</b>
		<b>664 300</b>			<b>664 300</b>

#### STOCK CONTROL

Date 2009	Cross reference	\$	Date 2009	Cross reference	\$
1 Jan	Balance	39 000	31 Dec	Cost of Sales	330 000
31 Dec	Bank	34 000		Drawings	5 000
	Creditors Control	306 000		<b>Balance</b>	<b>44 000</b>
		<b>379 000</b>			<b>379 000</b>

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## Workings:

Cash Receipts		Cash Payments	
Sales	264 000	Stock	34 000
Receipts – debtors	385 000	Loan	16 000
Accrued comm rev	<u>1 000</u>	Expenses	189 000
	650 000	Drawings	84 000
		Creditors	<u>307 600</u>
			630 600

Question 2.1.1 tested students' knowledge of double entry accounting, as well as their understanding of how financial information is used in budgeting. Students needed to read a lot of information and reconstruct accounts to find 'missing' information. Worth a total of ten marks, the question had three distinct parts:

- Debtors Control (three marks) – one mark for the sales entry, one mark for discount expense and one mark for the closing balance
- Cash at Bank (four marks) – as there were a total of eight possible entries, one mark was awarded for every two correct entries
- Stock Control (three marks) – one mark for both Bank and Creditors Control, one mark for Cost of Sales and one mark for Drawings.

As this question involved reconstructions of accounts, a variety of approaches were allowed. Formal titles were not required and marks were awarded for partially completed responses. It is vital that students show their workings whenever calculations are required. Otherwise, zero marks may be recorded as it is impossible to determine how particular amounts were calculated. Some students simply recorded one total dollar amount and labelled it cash payments (credit side) or cash receipts (debit side). If this amount was incorrect, marks could only be awarded if workings were shown. Some students chose to record individual payments and receipts in the cash at bank account and, as the question was based on reconstructions, this was satisfactory.

### 2.1.2

Marks	0	1	2	Average
%	46	30	24	<b>0.8</b>

### BAXTER'S BEDS BUDGETED BALANCE SHEET as at 31 December 2009 (extract only)

Current Assets	\$	Current Liabilities	\$
Stock Control	44 000	Creditors Control	30 600
Debtors Control	30 000		
Cash at Bank	33 700		
	<b>106 700</b>		<b>30 600</b>

This question flowed on directly from the accounts prepared in Question 2.1.1. One mark was awarded for correctly listing all three current assets and one mark was for Creditors Control. The balances of the assets were all carried forward from the ledger accounts, so consequential errors were not penalised. This was particularly important for the bank account, as many students determined that the account was in overdraft and therefore they had reported two liabilities, rather than simply the one listed above. It appeared that some students did not complete this question at all, possibly because they thought that they had made errors in the reconstructions. Students are reminded that consequential errors are not penalised in this type of question.

### 2.2

Marks	0	1	2	Average
%	50	27	23	<b>0.8</b>

These ratios will show the liquidity of the business – its ability to pay off its short-term and immediate debts as they fall due. It helps to identify potential liquidity issues that may require the business to borrow cash, the owner to contribute



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cash or perhaps defer payments. They can be used during the budget period to monitor actual ratios to ensure no deterioration in liquidity.

Students were required to make two distinct points when answering this question to be awarded full marks. One essential point that needed to be covered was in relation to measuring liquidity. Better responses stated the difference between the two ratios and how each of them may be used by management. Other good responses explained how liquidity can be monitored during a budget period. Poor responses indicated that these ratios were used to assess profit. Students should ensure they understand the differences between profitability and liquidity ratios.

## 2.3.1

Marks	0	1	2	3	4	5	6	7	Average
%	11	13	22	19	14	8	8	3	2.9

Transaction or event	Assets (Increase/Decrease/ No effect)	Liabilities (Increase/Decrease/ No effect)	Owners Equity (Increase/Decrease/ No effect)
21 November 2010 (Received Order)	No effect	No effect	No effect
25 November 2010 (Deposit Received)	Increase	Increase	No effect
31 December 2010 (Delivery of 15 beds)	Increase	Decrease	Increase
15 January 2011 (Delivery of 5 beds and received payment)	Increase	Increase	Increase

This question obviously caught many students off-guard. Many students could not state the overall effect on the three components of the accounting equation.

The question was assessed as follows:

- event of 21 November: one mark for the complete line
- event of 25 November: one mark for the complete line
- event of 31 December: one mark for the effect on assets, one mark for the effect on liabilities and owner's equity
- event of 15 January: one mark each for assets, liabilities and owner's equity.

Three common errors made on this question were:

- many students came to a conclusion that meant that the accounting equation could not balance. For example, some students stated no effect on assets, no effect on liabilities and then stated an increase in owner's equity. Students are advised to ensure that with this type of question their final response is logical – that the accounting equation can actually balance
- a second common error occurred within the last line of the table provided. Many students correctly stated an increase in assets and owner's equity, but included no effect on liabilities. Such responses appear to have ignored that when a sale is made, the GST liability of the business will in fact increase
- many students did not show the overall effect on the accounting equation. Some students stated 'increase assets, decrease stock', which may be factually correct. However, the overall impact on assets was required and therefore these responses did not earn full marks.

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## 2.3.2

Marks	0	1	2	3	4	5	Average
%	30	13	36	14	5	3	1.7

### Sales Journal

Date 2010	Debtor	Inv. No.	Cost Price	Selling Price	GST	Total Debtors
31 Dec	Great Southern Motel	BB34	3 300	5 500	550	6 050

### General Journal

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
31 Dec	Prepaid Sales Revenue	2 000			
	Sales		2 000		
	Cost of Sales	1 200			
	Stock Control		1 200		

Students needed to interpret a lot of detailed information in this question. The five marks were allocated as follows:

- Sales Journal (two marks) – one mark for the first half of the entry (up to cost price) and one mark for the second half of the journal entry
- General Journal (three marks) – one mark for the debit entry to Prepaid Sales Revenue \$2000, one mark for the credit entry to Sales Revenue \$2000 and one mark for the double entry to Cost of Sales and Stock Control \$1200.

A wide variety of responses was received but many students did not interpret the information provided correctly. As a 20 per cent deposit had already been paid, this represented the amount that had been prepaid by the customer (20 per cent of a total sale of \$10 000 = \$2000). The deposit of 20 per cent could also be related to the number of units (20 per cent of the order of 20 beds = 4 beds). Therefore, when 15 beds were delivered on 31 December this delivery included the four items paid for in advance, plus another 11 beds that now had to be invoiced. 11 units x \$500 each resulted in the Sales Journal entry of \$5500, plus GST of \$550. The cost price entries were determined as follows:

- Sales Journal: 11 beds @ \$300 each = \$3300
- General Journal: 4 beds @ \$300 each = \$1200.

As an alternative, some students simply included the total Cost of Sales in the Sales Journal. They therefore recorded Cost of Sales as \$4500, which was accepted as a correct response as long as the entry was not repeated in the General Journal. It appeared that many students found this question very difficult and very few were awarded full marks.

## 2.4.1

Marks	0	1	2	3	4	5	6	Average
%	40	8	7	8	9	12	15	2.4

### General Journal

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
31 Dec	Accrued Interest Revenue	175			
	Interest Revenue		175		

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	<i>Interest earned but not yet received (Memo 9).</i>					
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## Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Sundries
31 Mar	Accrued Interest Revenue	47	350						175
	Interest Revenue								175
30 Sep	Fixed Term Deposit	145	10 350						10 000
	Interest Revenue								350

Three marks were allocated to the General Journal, with three marks also available in the Cash Receipts Journal. The question was assessed as follows:

- General Journal: one mark was awarded for the correct double entry, one mark for the correct amount and one mark for an appropriate narration
- Cash Receipts Journal: one mark was awarded for the two entries required on 31 March and two marks were awarded for the two entries required on 30 September.

Common errors made on this question included:

- incorrect titles such as 'investment account'
- incomplete titles such as 'accrued revenue'
- the omission of the narration, despite it being specifically asked for in the question
- the omission of the memo number in the narration
- individual amounts recorded in the bank column of the Cash Receipts Journal
- recording accrued interest revenue on 30 September.

Students are advised to ensure that their narrations are full descriptions of the event being recorded and that they must include a document number if provided. It appears that students still have difficulty with this type of question, despite the fact that several similar questions have been presented in previous examinations.

### 2.4.2

Marks	0	1	2	3	Average
%	39	23	22	16	1.2

To match revenues earned with expenses incurred to accurately calculate net profit. The interest revenue has been earned in the current reporting period and therefore should be recognised.

Accounting Principle: Reporting Period

This question required students to explain why the adjustment was required on 31 December. To explain this fully, students were expected to make reference to the item 'interest revenue'. Unfortunately some students referred to the qualitative characteristic of 'relevance' and were not awarded one of the marks available. Students are again reminded that principles and qualitative characteristics are not interchangeable.

### 2.4.3

Marks	0	1	2	Average
%	41	16	43	1.1

Assets understated as accrued interest revenue would not have been recognised. Equities understated as interest revenue would not be recognised, therefore profit would be understated, leading to owner's equity being understated.

With two marks available, one mark was allocated for each correct statement, with both items being understated. Unfortunately some students identified that profit would be understated but did not go on to explain the effect on equities. Students must ensure that they read theory type questions carefully and ensure that their responses provide a full explanation.

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## 2.5.1

Marks	0	1	2	3	Average
%	7	12	21	60	2.4

	Actual \$	Budget \$	Variance \$	U/F
Sales	712 000	700 000	12 000	F
Cost of Sales	352 000	350 000	2 000	U
Wages	133 000	120 000	13 000	U
Depreciation – Vehicle	7 000	10 000	3 000	F

To gain three marks students needed to:

- identify the actual figure for Wages as \$133 000 (one mark)
- identify the dollar amount of the variances for Sales, Cost of Sales and Depreciation – Vehicle (one mark)
- correctly label the three variances as F, U and F (one mark).

Most students responded well to this question and many achieved full marks. Students should not use the abbreviation 'U/F' for Cost of Sales. This may have been intended to indicate an unfavourable variance. However, it could be interpreted that a student was unsure and was recording two answers – unfavourable or favourable. The heading of the table indicated that U or F had to be used, so the response of U/F was assessed as an incorrect answer. Students should note this for future reference.

## 2.5.2

Marks	0	1	2	Average
%	31	43	26	1

Cost of Sales: The cost of some stock items may have increased over the period, therefore resulting in a higher Cost of Sales. As the business sold more than expected, Cost of Sales would also be more than expected.

Depreciation – Vehicle: The business sold a vehicle during the period and did not replace it, thus decreasing the amount of depreciation expense for the period. The business reassessed the useful life of the vehicle (longer than originally predicted) and therefore the depreciation expense was less than predicted in the budget.

The responses for the variance in Cost of Sales were superior to those written for the Depreciation variance. Most students identified the increase in sales and explained a corresponding increase in Cost of Sales. However, it appeared that many students found it difficult to explain a reason for the decrease in depreciation and suggested ideas such as:

- the asset was used less this year than predicted in the budget. This is unacceptable as the only method of depreciation in the current study design is straight-line, which is not based on usage
- the asset broke down during the period, therefore there was less depreciation. This type of response also demonstrates a lack of knowledge about straight-line depreciation
- new models have come on to the market and therefore the value of the vehicle has depreciated. This type of response also showed a lack of knowledge of depreciation.

## 2.6.1

Marks	0	1	2	Average
%	40	34	26	0.9

Financial: Net Profit Rate, Gross Profit Rate, Return on Investment, Return on Assets, Asset Turnover

Non-financial: Customer satisfaction survey, number of customer complaints, number of times customers returned goods, the hours worked by the owner

Many students did not respond to the question as stated and instead provided advice to the business owner as to how they could improve their profit result. Students suggested, for example, holding a sale, increasing prices and offering discounts, however these responses did not answer the question and marks were not awarded. Students who appeared to have read the question carefully did not seem to have any difficulty responding in the correct way.

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## 2.6.2

Marks	0	1	Average
%	35	66	0.7

Industry averages/Budgeted performance/Past performance/Previous reporting periods

Most students scored well on this question as only one benchmark had to be identified and an explanation was not required. Students who did not gain the mark usually demonstrated a lack of knowledge in relation to the term 'profitability'. Poor responses stated benchmarks such as 'net profit' or 'working capital ratio' and again, some students wanted to provide advice to the owner of the business. The majority of students responded favourably to this question.