



GENERAL COMMENTS

The June 2012 examination was the first for the revised study design. The examination was significantly different to past June examinations as it consisted of nine questions, with many containing multiple parts.

This was the last June examination to be conducted. From 2013 there will be a two-hour end-of-year examination only.

Some students did not attempt all questions presented on the examination and this may have been caused by timing issues. It is vitally important that students plan their time carefully in order to maximise their score. Students are also advised to read every question carefully, as some responses did not answer the question presented. For example, in Question 8b. students were required to comment on the cash position of a business. Some students interpreted this as a comparison between cash and profit, which has appeared on many past exams. However, there was no mention of profit in this question and such information was therefore irrelevant.

Question 2e. was a ‘discuss’ question worth five marks. Although there were some excellent responses to this question, some students wrote only one or two lines in response. The lines provided in the answer book should be used as a guide to the length of the required response and students who provide extremely short responses should not expect to be awarded full marks. In regard to the three key accounting reports, a full Income Statement had to be completed, the operating activities section of the Cash Flow Statement was required and an extract of a Balance Sheet also needed to be completed. Students should not attempt to predict which financial reports will be required on any examination. All three reports can be examined, either as full or partial statements.

Students performed quite well in the parts of the examination that required recording and reporting, although titles were an issue in reports, particularly in relation to Cash Flows. Titles such as Debtors Control and Stock Control should not be used in Cash Flow Statements. The titles used in a Cash Flow Statement should be descriptive in relation to the item under consideration. For example, rather than Debtors Control, ‘Cash collected from debtors’ should be used. Instead of Stock Control, the title ‘Cash purchases of stock’ should be used. The titles used should describe the nature of the cash flow being reported. This has been mentioned in previous assessment reports and students should heed this advice.

Students are reminded that they can expect a range of questions with key words such as ‘discuss’, ‘explain’, ‘identify’ and ‘justify’ on the examination. It is vital that responses to such questions are relevant and to the point. Students are required to demonstrate and apply their knowledge in order to be awarded marks on such questions. When answering questions that include key words such as ‘discuss’ or ‘justify’, dot-point answers are not appropriate. Students are advised to provide full written responses that will allow them to demonstrate their knowledge.

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

1a.

Marks	0	1	2	3	4	Average
%	24	18	26	26	6	1.7

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
1 Feb	Stock control	15 000			
	Computer System	3 000			
	Creditors Control		4 000		
	Box Nursery				4 000
	Capital		14 000		

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A significant number of students didn't score any marks on this opening journal entry.

One mark each was awarded for the:

- Stock Control
- Computer System entry
- Creditors Control and the subsidiary ledger account
- Capital entry.

The bank overdraft facility proved to be problematic for some students. The facility stipulated a limit of \$10 000 could be used by the business, but at this stage an overdraft did not exist. Therefore, it should not have been included in the General Journal entry. Similarly, if a business takes out a loan and receives cash, this is not recorded in a General Journal. Such transactions appear in the Cash Receipts Journal.

Other errors included:

- omitting the subsidiary ledger account for Box Nursery
- omitting the capital amount (which should have been the balancing figure)
- recording the second-hand computer at its historical cost rather than its agreed value.

1b.

Marks	0	1	2	3	Average
%	29	23	27	21	1.4

Explanation: Usually non-current assets are recorded at their historical cost, which is the original cost at the time of acquisition. However, this cost was paid by the owner when purchased privately and does not represent the value of the asset at the time it was contributed to the business. The future economic benefit of the asset should be taken into account, as this would be more relevant to decision-making than the item's historical cost. Therefore, the agreed value should be used to satisfy relevance. Using agreed value would not, however, satisfy reliability, as this value cannot be verified by a source document and may be subject to personal opinion or bias.

This question required one accounting principle, and a range of principles were offered by students. The important point to keep in mind when explaining an accounting principle is that relevant information must be provided. Some students provided a different principle and were rewarded for a satisfactory explanation.

Following are some examples of good responses.

Entity Principle: the owner has contributed a used asset from their personal resources at a value lower than its historical cost as it is now a second-hand asset as the owner and business are treated separately.

Conservatism Principle: agreed value should be used so as not to overstate the value of assets and owner's equity in the balance sheet of the business.

The less successful responses to this question tended to mix principles and qualitative characteristics and be inconsistent in their explanation. For example, *agreed value should be used as it is reliable, thus satisfying historical cost*. This was despite the fact that agreed value is based on an estimate and therefore cannot be verified by source documents.

1c.

Marks	0	1	2	Average
%	23	25	52	1.3

Explanation: A liability requires a present obligation of future outflow of economic benefits. As the bank overdraft has not yet been used, no present obligation exists at this point in time. The overdraft facility simply represents an ability to withdraw funds from the bank in the future if needed by the business.

Some students had difficulty with this question and did not recognise that the overdraft had not yet been used. An overdraft facility existed, but the business had not yet overdrawn its account. Students are advised to read questions very carefully so misinterpretations do not occur.

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Question 2

2a.

Marks	0	1	2	Average
%	28	30	42	1.2

Cost of Sales 9 000 × 100/150 = 6 000	Sundries 26 000 = 11 100 + 9 000 + 900 + 5 000
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One mark was awarded for each correct calculation and for recording this amount in the journal in part b. A common error in relation to Cost of Sales was to simply divide the selling price by two. This would mean the business would have a mark-up of 100%, not 50% as stated in the question. Students are reminded to check their answers carefully to ensure that the mark-up calculation fits the information given in the question.

2b.

Marks	0	1	2	3	Average
%	28	23	25	25	1.5

Cash Receipts Journal (summary)

Date 2012	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
27 May	Totals to date		26 000	400	11 500	6 000	9 000	5 000	900
31 May	Kafe Kool	872	3 201	99	3 300				

from Question 2a.

The Cost of Sales and Sundries totals were in Question 2a.

Cash Payments Journal (summary)

Date 2012	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Sundries	GST
27 May	Totals to date		33 500	–	15 000	–	17 000	1 500
29 May	Prepaid Rent exp.	47	8 250				7 500	750

Sales Journal (summary)

Date 2012	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
27 May	Totals to date		8 000	12 000	1 200	13 200
28 May	Kafe Kool	232	2 000	3 000	300	3 300

Purchases Journal (summary)

Date 2012	Creditor	Invoice Number	Stock Control	GST	Creditors Control
27 May	Totals to date		6 000	600	6 600

One mark was awarded for each of three correct entries. Students should note that an entry was not required in the Purchases Journal. Common errors made on this question included the following.

Cash Receipts Journal

- incorrect calculation of the discount granted to the debtor
- using an incorrect title: 'Debtors Control', rather than 'Kafe Kool' in the Details column
- including GST on the amount of cash received

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Cash Payments Journal

- using an incorrect title: 'Rent Expense' rather than 'Prepaid Rent Expense'
- incorrectly recording the dollar amount in the Sundries column. Some students only recorded one month's Rent, rather than the three months stated in the question

Sales Journal

- incorrect calculation of the sale made: 2 umbrellas for \$1500 each = \$3000 plus GST

Students and teachers are reminded that when recording in journals, **all** details of the entries are required to score full marks. This includes dates, correct titles and correct dollar amounts.

2c.

Marks	0	1	2	3	4	Average
%	27	9	13	21	31	2.2

Creditors Control

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
31 May	Bank	15 000	1 May	Balance	24 500
	Balance	16 100	31 May	Stock Control/GST Clearing	6 600
		31 100			31 100
			1 Jun	Balance	16 100

Stock Control

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
1 May	Balance	16 000	31 May	Cost of Sales	6 000
31 May	Creditors Control	6 000		Cost of Sales	10 000
				Balance	6 000
		22 000			22 000
1 Jun	Balance	6 000			

This question was handled well by most students. It is pleasing to see that many students have a good knowledge of ledger account templates. Some students made basic errors, including using an incorrect posting date (should have been end of month), incorrect titles and/or incorrect balancing procedure. The debit entry to Creditors Control should simply have been 'Bank' as there was no Discount Revenue recorded for the month.

2d.

Marks	0	1	2	3	4	Average
%	20	8	14	23	35	2.5

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Explanation: \$5000 of Rent would be reported as Prepaid Rent Expense under current assets.

Justification: As three months' Rent was paid in advance and one month had been used up, two months' Rent represents a future economic benefit for the business, which is expected to be used up within the next 12 months.

Most students made a reasonable attempt at this question, with many scoring full marks. However, some students did not fully explain and justify why the Prepaid Rent was a current asset. With four marks available, a detailed explanation and justification was required.

2e.

Marks	0	1	2	3	4	5	Average
%	37	13	14	16	16	4	1.7

Discussion: By operating with control accounts, unnecessary detail is removed from the general ledger as there is just one account for each of total debtors and total creditors. These totals make preparation of the Balance Sheet easier as one total is ready for use, rather than many separate accounts. It also provides a checking mechanism that can be used to identify recording errors, as the balance of control accounts can be checked against the totals of the subsidiary ledgers via the Debtors Schedule and Creditors Schedule. This also allows for separation of duties among staff, which can also reduce the likelihood of fraud. However, Shade Designs has just one supplier, so using a control account for creditors would create unnecessary duplication of one creditor's account and keeping two sets of records is not necessary.

Some students simply listed a few dot points without providing the necessary discussion or explanation. Students are reminded that responses in dot-point format are not acceptable in response to a 'discuss' type question. Some students incorrectly stated that a weakness of control accounts is that the owner would be unable to determine how much an individual debtor owes the business. This shows a fundamental lack of knowledge in relation to this area of the study design. Control accounts are never used without the individual subsidiary accounts also being used.

Question 3

3a.

Marks	0	1	2	3	4	5	Average
%	3	1	1	2	7	86	4.7

Item: Jazz 16 GB USB		Cost Assignment Method: FIFO								
Supplier: DZ Systems										
Date 2012	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 June	Balance							132	11	
								150	12	3 252
11 June	Invoice 895				100	11	1100	32	11	
								150	12	2 152
16 June	Invoice 896				32	11				
					36	12	784	114	12	1 368
22 June	Memo 6				4	12	48	110	12	1 320
26 June	Memo 9				45	12	540	65	12	780
30 June	Memo 10				5	12	60	60	12	720

Five complete entries were needed in the stock card and one mark was allocated for each correct, complete entry. This question was handled particularly well, with the majority of students gaining full marks. Students who did not achieve full marks tended to use selling prices for some of the entries, added GST to the cost price of stock or simply omitted one or two of the entries. A small number of students recorded the stock loss in the IN column, rather than the OUT column.

3b.

Marks	0	1	2	3	Average
%	9	7	14	70	2.5

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General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
22 Jun	Drawings	48			
	Stock Control		48		
26 Jun	Advertising	540			
	Stock Control		540		

One mark each was allocated for the:

- debit entry to Drawings
- debit to Advertising
- two credit entries to Stock Control.

Students performed very well on this question, with many scoring full marks. The amounts for the journal entries were already determined in the Stock Card. However, some students took details from the Stock Card for the wrong memo, with some creating an entry for Stock Loss (Memo 10, not Memo 9).

3c.

Marks	0	1	2	3	Average
%	21	17	17	45	1.9

Sales	
100 × 20 = 2000	
68 × 22 = <u>1496</u>	\$3496
Less Cost of Sales	
1100 + 784	<u>\$1884</u>
Gross profit	1612
Less Stock loss	<u>60</u>
Adjusted Gross Profit	\$1552
Adjusted Gross Profit	
	\$1552

One mark each was allocated for:

- the total sales figure
- the correct Cost of Sales amount
- including the Stock Loss of \$60.

This question proved difficult for some students. Many simply added all the entries in the OUT column of the Stock Card to determine Cost of Sales. This was incorrect, as the OUT column included Cost of Sales, Advertising, Drawings and a Stock Loss. Students should keep in mind that Stock Cards record a variety of financial events, not just buying and selling stock.

3d.

Marks	0	1	2	Average
%	54	30	16	0.6

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Explanation: It may not be possible to identify the actual cost price of each stock item. Therefore, a cost assignment method is used in order to allocate a cost price to each sale. This is done in order to determine Cost of Sales for a reporting period so an accurate profit can be determined.

This question was not handled well by the majority of students. Many students stated that FIFO is used so that the oldest stock is sold first or so that stock did not go off. These statements demonstrated a lack of knowledge about why businesses apply the FIFO method. FIFO does not measure actual stock movement. It is an assumption about stock flows so that Cost of Sales and profit can be determined.

3e.

Marks	0	1	2	3	Average
%	29	22	36	13	1.3

Explanation: If Memo 9 was omitted, the advertising expense account would be understated. However, the stock items have physically left the business, so at the time of the stocktake the goods will be missing and therefore stock loss for the period would be overstated. Therefore, net profit for the period would be unaffected as one expense is overstated (stock loss), which compensates for the other expense being understated (advertising).

Question 4

4a.

Marks	0	1	2	Average
%	69	17	14	0.5

$(2 \times \$1200) + (10 \times 1440)$ $= \$2400 + \$14\,400$ $= \$16\,800$	
Cash paid for advertising for the year ended 30 June 2012	\$16 800

One mark was awarded for each of the two calculations needed to determine the correct amount.

The majority of students did not respond well to this question. A significant number of students made calculations for more than 12 months, when it was stipulated in the question that the business pays once a month. Other students included GST in the payments. These students are reminded that GST should never be included in questions asking for a calculation of cash paid for advertising.

4b.

Marks	0	1	2	Average
%	74	13	13	0.4

$(3 \times \$1200) + (9 \times 1440)$ $= \$3600 + \$12\,960$ $= \$16\,560$	
Advertising expense for the year ended 30 June 2012	\$16 560

Many students had difficulty with this question. The timing difference between the cash payment and the expense incurred created an issue for some students. Given that there are only 12 months in the yearly reporting period, it was disappointing that some students had totals of 15, 16 and 17 months in their calculations. Students should remember that a reporting period has a maximum length of 12 months and if their calculations show more than this they should check their calculations carefully. Teachers and students are advised to review this area of the study design.

4c.

Marks	0	1	2	3	Average
%	36	25	22	17	1.2

Explanation: While the total amount paid for advertising was \$16 800, the amount used up or consumed during the current reporting period was \$16 560. This occurred because the business pays for its advertising a month in advance, and by following the reporting period principle the business owner should determine the amount of advertising used up

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in the period and report this amount as an expense. At the end of the period, the business will have already made a payment in advance for the next period, but this should not be reported as an expense as it has not yet been used.

Question 5

Marks	0	1	2	3	4	Average
%	46	17	27	8	2	1

Explanation: It is not appropriate to prepare an Income Statement from a Pre-Adjusted Trial Balance as the net profit would not be accurate. Some revenue and expense items may be available as they may not have to be adjusted.

However, under accrual accounting, revenue earned and expenses incurred are both required in order to get an accurate profit. This means that balance day adjustments for items such as prepaid expenses, accrued expenses, stock losses and depreciation must all be done before profit is determined. Hence, a Pre-Adjusted Trial Balance does not provide all the required information.

In regard to Cash Flow Statements, the required information is included in cash journals, not a Trial Balance. The Pre-Adjusted Trial Balance does not reveal items such as: cash received from debtors, cash paid to creditors, cash drawings, capital injections and loan repayments. Some outflows, such as payments of expenses, may be listed in a Trial Balance. However, many cash flows would be hidden in account balances, and therefore it is inappropriate to try to prepare a Cash Flow Statement from any Trial Balance.

Responses to this question indicated that most students had a good working knowledge of Trial Balances, balance day adjustments and Income Statements. The explanations provided were accurate and most students recognised that the question referred to a Pre-Adjusted Trial Balance. However, there were some poor responses to the cash flow part of this question. Most poor responses indicated that balance day adjustments were required before a Cash Flow Statement could be prepared. Such responses demonstrated a poor understanding of the purpose of a Cash Flow Statement and the source of such information. Balance day adjustments are not done in order to complete a Cash Flow Statement as the information is already available in the cash journals, but this was overlooked by some students.

Question 6

6a.

Marks	0	1	2	3	4	5	6	7	8	9	Average
%	10	3	3	4	5	7	9	13	16	28	6.1

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 Jun	Depreciation of Computer System	4 920			
	Acc. Depn of Computer System		4 920		
	Stock Control	2 080			
	Stock Gain		2 080		
	Cartage Outwards	900			
	GST Clearing	90			
	Discount Revenue		990		
	Rent Expense	22 600			
	Prepaid Rent Expense		22 600		

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One mark was allocated for each entry in the General Journal. Although many students recorded the correct double entries, some had difficulty determining the correct dollar amount for some entries. This happened quite often with the last entry, where some students recorded the prepaid amount, rather than the amount used up. Some students also omitted the GST part of the fourth entry, with some students also reversing the entry. The Depreciation amount in the first entry was an issue for some students. The percentage of Depreciation required was stated in the question but this proved to be a difficult process for some students.

6b.

Marks	0	1	2	3	Average
%	27	19	33	21	1.5

Cash Flow Statement: There would be no effect at all as Depreciation does not involve any movement of cash.

Income Statement: Expenses (Depreciation) would be understated; therefore net profit would be overstated.

Balance Sheet: Non-current assets (Computer System) would be overstated and Owner's Equity would also be overstated (profit overstated).

One mark was available for each of the three reports. Teachers and students are reminded that the two-fold effect on Balance Sheets is mentioned specifically in the study design and in questions such as this both effects on the Balance Sheet should be identified. Poorer responses only covered one effect on the Balance Sheet and some students indicated that Depreciation affects cash flows.

6c.

Marks	0	1	2	3	4	5	6	Average
%	15	5	8	14	23	26	10	3.4

Timson Technologies Income Statement for the year ended 30 June 2012

	\$	\$
Revenue		
Sales		448 000
Less Cost of Goods Sold		
Cost of Sales	251 180	
Freight Inwards	3 090	254 270
Gross Profit		193 730
Plus Stock Gain		2 080
Adjusted Gross Profit		195 810
Plus Other Revenue		
Discount Revenue		2 390
		198 200
less Other Expenses		
Advertising	21 400	
Wages	161 500	
Cartage Outwards	5 400	
Rent Expense	22 600	
Depreciation of Computer System	4 920	215 820
Net Loss		17 620

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One mark each was awarded for:

- Sales
- Cost of Goods Sold and Gross Profit
- Stock Gain and Adjusted Gross Profit
- Discount Revenue and the sub-total
- Advertising and Wages
- Cartage Outwards, Rent and Depreciation of Computer System.

Students are reminded that the number of marks allocated does not necessarily equate to the number of points required in their response. Students are advised to check the question booklet and ensure that all revenues and expenses have been included in their report. They should also have checked that the amounts for revenues and expenses had been adjusted by their General Journal entries in Question 6a. Some students used pre-adjusted amounts, despite the fact that their General Journal entries were accurate.

6d.

Marks	0	1	2	Average
%	42	40	18	0.8

**Timson Technologies
Balance Sheet (extract) as at 30 June 2012**

	\$	\$
Current Liabilities		
Bank Overdraft	16 000	
Creditors Control	51 300	
GST Clearing	3 360	
Loan – MCB Finance	27 600	98 260
Non-current Liabilities		
Loan – MCB Finance		47 400
		145 660

One mark was allocated to each of three current liabilities: Bank Overdraft, Creditors Control and GST Clearing. The second mark was allocated to the Loan, correctly split between current and non-current liabilities.

Students are again reminded that the number of marks available does not necessarily equate to the number of items required in their response. Other common errors included:

- omitting the bank overdraft
- omitting the GST Clearing account
- splitting the loan incorrectly between current and non-current liabilities.

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6e.

Marks	0	1	2	3	Average
%	43	15	17	25	1.3

Explanation: Sales is a revenue item as it results in an inflow of economic benefits that increases either Cash at Bank or debtors and leads to an increase in Owner's Equity.

Discount Revenue is a revenue item as it results in a saving in outflows of economic benefits to creditors. That is, it is a reduction in payments to creditors that leads to an increase in Owner's Equity.

Although some students provided excellent answers to this question, it was disappointing to see rote-learned definitions of revenue. It is incorrect to state that both sales and discounts are revenue items because they both involve an inflow of economic benefits, leading to an increase in Owner's Equity. Students are reminded to avoid rote-learned responses. Definitions may provide a good starting point for answers but knowledge must be applied to the situation presented in examination.

Question 7

Marks	0	1	2	3	Average
%	42	11	13	35	1.4

Profit and Loss Summary

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
30 Jun	Expense accounts	16 500	30 Jun	Revenue accounts	38 500
	Capital	22 000			
		38 500			38 500

To achieve full marks on this question, students needed to correctly record revenues on the credit side, show the expenses and capital on the debit side, and close off the account in the appropriate manner.

This question was a little different to what has been presented in the past. Rather than presenting information relevant to revenues and expenses, the question provided total revenues and the profit for the period. This meant that students needed to work backwards to determine the total expenses for the period. Some students had difficulty completing this task.

Other issues included:

- incorrect titles in the account
- incorrect amounts being used, despite details being provided in the question booklet
- incorrectly recording Drawings in the Profit and Loss Summary account.

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Question 8

8a.

Marks	0	1	2	3	4	5	Average
%	23	6	6	8	17	40	3.1

Mel's Cake Supplies Cash Flow Statement (extract) for the month ended 31 May 2012

	\$	\$
Cash Flows from Operating Activities		
Cash Sales	27 000	
Receipts from Debtors	9 100	
GST Collected	2 700	38 800
Payments to Creditors	(10 800)	
Advertising	(4 800)	
Wages	(8 600)	
Cash Purchases of Stock	(13 500)	
GST Paid	(2 770)	
GST Settlement	(1 900)	(42 370)
Net Cash Flows from Operating Activities		(3 570)

One mark each was awarded for:

- Receipts from Debtors and Payments to Creditors
- Cash Sales
- GST Collected and GST Paid
- Stock, Wages and Advertising
- GST Settlement.

This question was handled reasonably well by most students. However, some students did not attempt this question. Common errors made by some students included:

- failing to adjust Receipts from Debtors and Payments to Creditors for the discounts stated
- including alien entries, such as Discount Expense
- omitting the GST Settlement entry
- failing to show the net result from operating activities as a negative figure (i.e. net outflow).

8b.

Marks	0	1	2	Average
%	55	17	28	0.7

Explanation: Mel is incorrect as her cash flows from operations is a negative result. Her cash balance only increased due to her capital contribution and taking out a loan. It is important that cash from day-to-day operations is positive for the long-term future of her business.

This question required students to interpret an accounting report. Students are reminded that not only should they be able to prepare a Cash Flow Statement, they should also be able to interpret results and explain what is happening in a business. The more successful responses realised that cash had increased, yet operating activities was a negative cash flow. A fundamental purpose of the Cash Flow Statement is to identify where cash is coming from and where it has been used. Students are advised to revise both practical and theoretical questions in relation to all accounting reports.

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Question 9

Marks	0	1	2	3	Average
%	51	18	19	12	0.9

	Name of Ledger Account	Increase/Decrease/No effect	Amount \$
Assets	Bank	Decrease	19 600
Liabilities	Accrued Wages	Decrease	2 800
Owner's Equity	Capital	Decrease	16 800

Students did not perform well on this question. Students should ensure that their Balance Sheet items balance. Some responses were not correct as, according to the accounting equation, they did not balance. Students are reminded not to list Wages Expense under the heading of Liabilities as it cannot possibly be correct.

If a column is headed 'Increase/Decrease/No Effect', students must use one of these three headings for each item. Using arrows or ticks/crosses, or writing 'understated' or 'overstated' were not acceptable as the question asked for increase/decrease/no effect.