

2024 ASSESSMENT REPORT

ACC315116 ACCOUNTING

General Comments

The 2024 Accounting exam demonstrated students' strong knowledge of the accounting fundamentals taught throughout the course.

Section A was a good test of students' knowledge and understanding and a good reflection of the various aspects of the course content.

High achieving students were able to completely answer Section B with only minor errors. This section was considered less difficult in part due to Q4 asking students to analyse ledger accounts.

In Section C, high achieving students were able to answer both questions very well with only minor errors on balance day adjustments or discounting (Cash Budget).

In Section D, students were able to effectively analyse ratios to a very high level. The questions on the exam had rich data but unfortunately the questions didn't specifically push students to give more expansive answers regarding ratio analysis.

Suggestions to Teachers

Section A

Teachers are encouraged to model accounting terms, concepts and principles in the exam format during the year.

Teachers should also teach students to explicitly refer to the financial reports studied during the year (Income Statement, Balance Sheet, Cash Flow Statement and Cash Budget) and the particular information on each report that can be used by various stakeholders to make judgements about the business. Many students can talk in generalities but fall short of giving specific examples of information that can be used to inform decision making.

Section B

Teachers are encouraged to model bank errors multiple times in the bank reconciliation.

Section C

Teachers are encouraged to explicitly model the layout of the financial statements.

Section D

Students should be taught to focus on specific areas that need improvement rather than providing generalised comments. For example, if the GPR is above average but the NPR is below average, then the problem is too much spending on Operating Expenses. Neither COGS nor the selling price is an issue, so students should be discussing how to reduce operating expenses.

Students need to look at the marks allocated and expand their answers to gain more marks on those questions.

Section A

Question 1a)

i) Source documents provide evidence of the transaction, validity for the users of accounting information, original details of each transaction, and provides a check. Examples include receipts, invoices, credit notes.

- 1 mark for “Evidence/proof of a transaction”; 1 mark for each example.

ii) External users receive formal accounting reports – Income statement, Balance Sheet and Cash Flow Statement.

External users include **investors** as it gives them an opportunity to evaluate how profitable and financially stable the firm is and evaluate management decision-making. Another external user is the **government via government agencies like** the ATO or ASIC who ensure compliance with external requirements.

- 1 mark for each example of an external user; 1 mark for explaining the information that they would be interested in and the report(s) that contain this information.

iii) GST stands for goods and services tax. It is 10% on the supply of goods and services and is collected by firms on behalf of the ATO; however, paid for by the consumer (end user). Some items are GST free and include education, basic foods, etc.

- 2 marks for explaining the GST; 1 mark for the example of a GST free item.

iv) A difference may occur between the balance in the cash at bank account and the bank’s balance as per bank statement for the following reasons:

- incorrect amounts entered into the records by either the bank or the business
- transaction omitted entirely by either party
- the bank records some entries such as bank charges, but the firm is not aware of them until they view the bank statement
- deposits not yet credited
- unrepresented cheques.

- 1 mark for each example; 1 mark for explaining the effect of the chosen example on either the Cash at Bank balance or the Bank Statement Balance.

Question 1b)

i) Capital expenditure is treated as an asset, and it extends the life of the asset over more than one accounting period. The following would need to be considered when borrowing finance for capital expenditure:

- the cost of borrowing and the impact on the business’s cash flow
- current interest rates and the business’s ability to pay instalments
- The rate of return on the new asset/s compared to the cost of borrowing
- any alternatives to borrowing, e.g. access to additional capital contributions, the potential of offering shares to new owners/shareholders.

- 1 mark for each example; 1 mark for explaining the importance of these examples in choosing to borrow money.

- ii) Examples of non-financial information that might be used to assist in decision-making includes:
- Non-financial – benchmarks, staff turnover, market size and share, current interest rates (these are directly from Unit 4 in the Course document)
 - Other acceptable examples include: industry averages, customer surveys, inventory turnover, economic climate, environmental concerns, public perception of the impact of the business, future conditions/demand, target market.
- 1 mark for each example, 1 mark for explaining how these might impact decision making.

Question 1c)

- i) A cash budget is a planning tool and is a forecast of cash receipts and payments and the resulting predicted cash balance for a period of time. It is used as a tool to plan for upcoming cash requirements or to plan for expected cash surpluses.

A cash flow statement is a historical document identifying the actual cash flows (inflows and outflows) from a business's operating, investing and financing activities. It gives the actual cash at the end of the period and is used to show the sources and uses of cash in the business to evaluate the sustainability of the cash situation. Generally speaking, most inflows need to come from the business's main operations.

- ii) Cash accounting is where transactions are recognised in the accounting records only when cash is received or paid. Accrual accounting, on the other hand, recognises transactions when the revenue is earned or the expense is incurred, rather than the associated cash flow from the transaction.
- iii) A prepaid expense has been paid for before the expense has been incurred, e.g. insurance paid in advance (which is an asset). Accrued expenses are when the expense has been incurred, however has not yet been paid or recorded (which is a liability). Both are Balance Day Adjustment accounts that are used to vary either revenue or expense accounts to ensure that profit is as accurate as possible for the accounting period and is in line with the Matching Principle that expenses should be applied to/matched to the period in which the related revenue was earned.
- iv) Capital expenditure is when a business acquires/installs an asset and it will have a life that applies over more than one accounting period. The cost of this expenditure is capitalised as an asset and will be recorded on the Balance Sheet. Examples include acquisitions like a new vehicle or piece of factory equipment and any of the costs getting the asset to location and ready for use.
- Revenue expenditure, on the other hand, applies to costs that are consumed during the current accounting period and they are charged against the revenue earned, e.g. replacement tyres, annual registration for a vehicle.
- 1 mark for explaining each term, 1 mark for providing an example, 2 marks for highlighting the distinction between each term.

Question 2a)

- i) Balance day adjustments (BDAs) are general journal entries that are completed at the end of each accounting period on 30 June. They allow an adjustment of relevant revenue and expense accounts so they reflect the actual costs incurred or revenue earned in that accounting period so profit is as accurate as possible. When revenue is received in advance, (for example, rent revenue is received for the upcoming month); this is technically unearned revenue. If the balance day falls before this revenue is actually earned, then it has the effect of overstating revenues earned in that accounting period if it is not dealt with as a balance day adjustment. In this example, a new Current Liability account should be created in the Balance Sheet to allow the rent revenue account to be decreased in the Income Statement. This is part of the Matching Principle which states that expenses should be applied/matched to the period in which the related revenue was earned.
- 1 mark for explaining that BDAs affect Revenue and Expense accounts, 1 mark for explaining that it is important for ensuring an accurate profit figure and putting activities into the correct accounting period. 2 marks for explaining the effect of the example on the Income Statement and Balance Sheet.
- ii) The perpetual inventory system allows a continuous record of the movement of stock to be kept (usually via a computerised system). The inventory account is adjusted for all Purchases, Purchase Returns, Sales and Sales Returns at the time of each transaction.
- The perpetual inventory system does not take account of inventory loss through theft or shrinkage. Therefore, a stocktake is necessary under this system as it allows the business to compare the *actual* inventory on hand with the *recorded* inventory on hand and, if required, an Inventory Adjustment entry can be made.
- 2 marks for explaining the perpetual system, 2 marks for explaining the purpose of the stocktake.
- iii) The Provision for doubtful debts is a negative Current Asset account. It enables the proper matching of revenues and expenses by estimating the accounts receivable that are still owing on Balance Day who are unlikely to pay their debt in the next accounting period. This is based on past experience of bad debts. The provision reduces the amount of Accounts Receivables shown in the Balance Sheet so it is more realistic and this ensures assets are not overstated in the Balance Sheet and profits are not overstated in the Income Statement.
- 2 marks for explaining the Provision. 2 marks for explaining why a Provision is made and the impact on the profit figure and the Balance Sheet/net figure for Accounts Receivable.

Question 2b)

- i) In this example, the Accounting Entity Assumption has been breached. This assumption states that the accounting records of the owner and their business must be kept separate. By purchasing a vehicle for a family member and recording it in the business's records, this has also affected the qualitative characteristic of Reliability of the asset figures of the business's Balance Sheet. Accounting for the car's depreciation in the business's Income Statement will lead to an overstatement of expenses and an understatement of any profits. The personal car is not Relevant to the business's accounting records and should not be included.

- 2 marks for explaining the Accounting Entity assumption and how it applies in this case, 2 marks for explaining the effects on the Income Statement and Balance Sheet and the Reliability characteristic of these reports.
- ii) In this case, the Matching Principle would not be followed if the payment is deferred until the next accounting period. The services that were performed in May are an accrued revenue and so need to be recorded in the current period. Without this, the profit figure in the Income Statement will be understated and unreliable. The money owing needs to be shown as a Current Assets (Accrued Revenue) on the Balance Sheet for the current accounting period to ensure Reliability in the financial reports.

By not adhering to the Matching Principle, profit will be low in the current period and higher in the following period and this will adversely affect the comparability of the reports.

- 2 marks for explaining the Matching Principle and how it applies in this case, 2 marks for explaining the effects on the Income Statement and Balance Sheet and the Comparability/Reliability characteristic of these reports.

Section B

Question 3

Date	Particulars	Debit	Credit
1 April	Cash at Bank	45,000	
	Equipment	20,000	
	Loan - Remote Bank Aust		45,000
	Accounts payables - Tasmaid		12,000
	Capital		8,000
	(owner introduced assets and liabilities to the business)		
2 April	Inventories	20,000	
	GST Clearing	2,000	
	Accounts payables – Timberchiefs		22,000
	(Credit purchase of inventories, Inv 6031)		
9 April	Cash at Bank	550	
	GST Clearing		50
	Sales		500
	(Cash sales of inventory, Rec 01)		
	Cost of Goods Sold	250	
	Inventories		250
	(cost price of goods sold, Rec 01)		
15 April	Accounts payables – Tasmaid	12,000	
	Cash at Bank		12,000
	(Paid creditor in full)		
16 April	Accounts receivables - Viewbank Hotel	1,430	
	GST Clearing		130
	Sales		1,300
	(Sold inventory on credit, Inv 6032)		

	Cost of goods sold Inventories (cost price of credit sales, Inv 6032)	900	900
30 April	Rent Expense GST Clearing Cash at bank (Paid rent expense, Cheque #4)	18,000 1,800	19,800

14 May	Sales returns GST Clearing Accounts receivables – Viewbank Hotel (credit sales returns, credit note 03)	400 40	440
	Inventories Cost of goods sold (cost price of credit sales returns, reversing entry, credit note 03)	210	210
28 May	Interest expense Cash at bank (paid interest expense on loan)	4,800	4,800
29 May	Drawings GST Clearing Inventories (Owner withdrew inventory, memo 4)	550	50 500
30 June	Prepaid expense – interest Interest expense (Balance day adjustment, prepaid interest of 10 months)	4,000	4,000

- 1 mark for each correct line/entry = 35 marks
- ½ marks given for Interest, Loan, Accounts Payable
- 1 mark for correct dates

- 1 mark for correct ruling off
- 1 mark for correct format (Dr left, Cr indent)
- 2 marks for narration
- Total mark out of 40 then convert to out of 20.

Question 4a)

On 1 October 2023, the business purchased equipment on credit for \$15,000 with an additional cost of \$1,500 GST from LD Traders.

- ½ mark for the date, ½ mark for purchasing equipment, ½ mark for GST amount, ½ mark for LD Traders + credit.

Question 4b)

On 1 October 2023, the business paid in cash \$1,500 plus \$150 GST for the installation of the equipment.

- ½ mark for the date, ½ business paid in cash \$1,500, ½ mark for GST amount, ½ mark for installation of equipment.

There was a minor error regarding the date on the alternative account structure, the ½ mark for the date was given greater flexibility when marking. There were only a handful of students that answered with the date 1 Oct 2024.

Question 4c)

On balance day, depreciation of the equipment for the period was calculated to be \$2,700 and this was recorded as a balance day adjustment.

- ½ mark Depreciation expense, ½ mark Balance Day or date/amount.

Section C

Question 6

Smith's Rackets and Repairs Income Statement for the period ending 30 June 2024				0.5 +0.5
	\$	\$	\$	
Net Sales				
Sales		176000		1
Less Sales returns		1100	174900	1+1
Less Cost of Goods Sold				
Cost of goods sold		64025		1
Add Inventory loss		3000	67025	2+1
Gross Profit			107875	1
Add other Revenue				
Discount Received		6400		1
Interest revenue		1600		2
Stringing receipts		48000		1
Commission		8900	64900	1
			172775	1
Less Other Expenses				
<i>Selling and Distribution</i>				
Depreciation – Delivery Van	4800			3
Advertising	980			1
Stringing expense*	23200			1
Fuel	8600	37580		1
<i>General and Administrative</i>				
Rent	36000			1
Insurance	9700			2
Depreciation – Tools and equipment	5600			2
Electricity	985	52285		1
<i>Finance Expenses</i>				
Doubtful debts	700*	700	90565	3+1
Net Profit			\$82210	1

- Total 32 marks + 3 for layout = 35 marks converted to 25.

Smith's Rackets and Repairs Balance Sheet as at 30 June 2024					0.5+0.5
	\$	\$	\$	\$	
ASSETS					
Current Assets					
Accrued revenue		400			2
Accounts Receivable	14000				1
Less Provision for Doubtful Debts	90*	13910			3+1
Inventory		69000	83310	83310	2+1
Non-current Assets					
Other financial assets					
Term deposit			26000		1
Property, plant and equipment					
Delivery Van	47000				1
Less Accumulated Depreciation – Delivery Van	19800	27200			3+1
Tools and equipment	28000				1
Less Accumulated Depreciation – Tools	12800	15200	42400	68 400	2+1+1
Total Assets				151710	1
Less Liabilities					
Current Liabilities					
Accrued expense – Insurance		4500			2
Accounts Payable		32000			1
GST		9400			1
Bank Overdraft		10000	55900	55900	1+1
Total Liabilities					
NET ASSETS				\$95810	1
OWNER'S EQUITY					
Capital		117600			1
Add Net Profit		82210	199810		1+1
Less Drawings			104000		1
				\$95810	1

*Stringing Expense was accepted as General or Admin Expense although it is actually a Cost of Service expense but as the course is focussed on Trading businesses, either of these categories was accepted.

- Total 35 marks + 3 marks = 38 marks converted to 20 marks.
- One mark for correct title. One mark per correct entry, two marks for simple correct balance day adjustment. Three marks for complex correct balance day adjustment.
- If BDA attempted but wrong allocate 50% of the marks (1 mark for simple, 1 ½ marks for complex). If entry there but unadjusted allocate a mark of ½.
- Minus ½ if correct statement but wrong classification. Zero marks if incorrect statement. Minus ½ if transfer of incorrect amount from trial balance.

The adjusting entry of Dr \$700 Doubtful Debts and Cr \$700 Less Provision for Doubtful Debts was also accepted and more commonly used.

Question 7a)

Statement of estimated receipts from Accounts Receivable				MARKS
	April	May	June	
Month of credit sale	\$	\$	\$	
January - 37000	1875			0.5
February - 32000	6400	1600		1
March - 26000	19110	5200	1300	1.5
April - 20000		14700	4000	1
May - 14000			10290	0.5
TOTAL	27385	21500	15590	1.5

Question 7 b)

Cash Budget – David’s Plant Nursery				0.5+0.5
Three months ending 30 June 2024				
	April	May	June	
	\$	\$	\$	
Estimated Cash Receipts				
Receipts from Accounts Receivable	27385	21500	15590	1
Sales	18000	14000	8000	1
Total Estimated Receipts	45385	35600	23590	1
Estimated Cash Payments				
Fuel	600	500	500	1
Drawings			26200	1
Wages	8800	8200	8200	1
Fairway Mower	35000			1
Wholesale plants	11000	10000	7000	1
GST			7200	1
Total Estimated Payments	55400	18700	49100	1
Bank Balance at the start of month	102000	91985	108785	1
Excess Receipts over Payments		16800		1
Excess Payments over Receipts	(10015)		(25510)	
Bank Balance at the end month	91985	108785	83275	1

- Deduct 1 mark if a student includes depreciation, bad debts or both depreciation and bad debts.

Section D

Question 8

a. Answer: 49.61%

$$\frac{253000}{510000}$$

b. Answer: 1.22:1

$$\frac{(64432+73544)}{112800}$$

c. Answer: 6.05 times per year or 60.31 days = 61 days

$$\frac{(95000+73544)/2 \times 365}{510000}$$

- Part marks allocated if the student showed workings but there were errors.
- Deduct 0.5 mark for incorrect rounding (only once).
- Deduct 0.5 mark for incorrect or omitted format (i.e. % or :1 or days).
- The most common mistake was in Question 8 c); students forgot to use AVERAGE Accounts Receivable and simply used the 2024 figure.

Question 9a)

i. Profitability

Consider GPR, NPR, RROE and RRTA.

GPR and NPR were both impacted by the first phase of the extension during 2023. Sales were reduced by \$65,000, with only a \$8,000 reduction in COGS. In addition, expenses increased for this year. Both ratios improved in 2024, with GPR being higher than both 2022 and the industry average. The NPR improved; however, it was still below the industry average. Interest on bank loan was the most notable expense to increase due to increased borrowing between 2022 and 2023 of \$78,000.

Of more concern are the RROE and RRTA figures as both are below industry average and neither returning to the 2022 level. The increased Building value did impact the RRTA as total assets increased by \$60,000.

The renovations impacted sales, dropping from \$245,000 in 2022 to \$180,000 in 2023 but jumped up to \$270,000 in 2024 which is clearly an indication that the extensions are making the anticipated positive impact. Therefore, despite the **Gross Profit Ratio** decreasing from 52.9% in 2022 to 41.2% in 2023, it rose to 53.9% in 2024, above the industry average of 47.8% which is favourable. Sales are clearly increasing at a faster rate than COGS.

Operating expenses, however, outweigh these gains in Sales and therefore the **Net Profit Ratio** that had decreased from 16.9% in 2022 to -14.6% in 2023, recovered to 13.5% in 2024 but is below the industry average of 18.6%. All expenses have increased over the years with wages and the interest on the loan contributing the biggest impact on the low Net Profit ratio.

The **Rate of Return on Owner's Equity** expresses profitability in terms of the return that the owner is receiving as a proportion of the owner's investment in the business. The Return on Owner's Equity was 5.51% in 2022, dropping to -3.34% in 2023 and increasing to 4.8% in 2024 which is lower than the industry average of 6% as well as some current bank deposit rates of 5%. It can be argued that investing in the bank would be better at the same rates due to being a less risky investment as Serena's has failed to produce a healthy Net Profit.

The **Rate of Return on Total Assets** shows a decreasing trend from 4.87% in 2022 to -2.69% in 2023. It increases to 3.72% in 2024 but is still below the industry average of 5.7%. The low RoRTA is due to the fall in net profit as well as the large increase in total assets.

- Satisfactory answers included students comparing the trend and industry average of the profitability ratios. Stronger answers included a reason/s for the increase or decrease in the profitability ratio with specific figures or occurrences referred to from the stimulus.
 - One mark for identifying the trend and comparing to the industry average.
 - One mark for explanation relevant to Serena's and referring to the statements.
(2x 4 ratios = 8 marks)
- Two marks were awarded for further quality analysis and understanding of the profitability shown through a definition of the ratios that linked to figures/occurrences within the stimulus or suggestions for improvement for Serena's Sport and Leisure.

(10 marks)

ii. Financial Stability

Consider the Debt ratio.

Funding from borrowing increased in 2023; however, it decreased in 2024 with only 20% of the business being funded by borrowing, the remainder being funded by OE. It is also well below the industry average. The advantage is reduced cost of funding external debt.

The business has excellent financial stability with the **Debt ratio** being well below the industry average of 45.89% across all three years. It increased from 14.01% in 2022 to 24.64% in 2023 as a result of the loan for the extension, decreasing slightly to 20.27% in 2024. This means that 79.73% of the assets within the business are supported by equity which is a very strong position for *Serena's* to be in as there is reduced cost of funding debt and the ability to apply for further loans for the second phase of the extension.

- Satisfactory answers included students comparing the trend and industry average of the debt ratio. Stronger answers included a reason/s for the strength of the debt or equity ratio with specific figures or occurrences referred to from the stimulus and what this would mean for *Serena's* moving forward.
 - One mark for identifying the trend.
 - One mark for comparing to the industry average.
 - Two marks for explanation relevant to *Serena's* and referring to the statements.
 - Reference to the current ratio was awarded only if it was specifically highlighted as an indication of short-term financial stability (Current ratio not listed as a financial stability ratio on the formulae sheet so not expected and not referred to by most students).

(4 marks)

iii. Management Efficiency

Consider inventory turnover.

The trend is down, despite the small improvement in 2024. This remains below the industry average and suggests some slow-moving inventory. Current inventory in 2024 of \$36,000 is relatively high compared to 2022.

Inventory turnover was slightly higher than the industry average of 4.11 times per year at 4.27 in 2022. It then declined to 3.1 and 3.14 in 2023 and 2024 respectively. Sales were negatively impacted by the renovations in 2023 and there has been an increasing amount of inventory on hand increasing from \$24,600 in 2022 to \$38,000 in 2023 and \$32,000 in 2024.

- One mark for identifying the trend.
- One mark for comparing to the industry average.
- Two marks for explanation relevant to Serena's and referring to the statements and/or possible suggestions for improvement to increase sales and/or decrease inventory on hand.
- Marks were awarded to those students who calculated and analysed the debtors collection period.

(4 marks)

Question 9b)

Before considering further expansion, the firm should consider strategies to increase sales given the expansion in 2023, especially as there will likely be another downturn in 2025 whilst proposed extensions are carried out.

Advertising expenditure increased, whilst sales are higher, the quantity of inventory being held is higher.

The second phase is considerably cheaper than the first, so a recommendation would be to conservatively wait another year; however, support the proposal.

- This question was mostly answered well. Most students referred to the positive increasing trend in Sales and Gross Profit after the first phase of the extension along with the business' ability to borrow sufficient funds for the second stage of renovations owing to the low Debt Ratio. Students that disagreed highlighted the benefit of waiting for a year or two, indicating the improvements that could be made in minimising operating expenses, paying down the loan and interest and achieving a healthier net profit before committing to higher debt and expense levels linked to the second renovation.
 - One mark for stating support/not supporting the investment.
 - Five marks for discussion from the financial statements and why this would support the chosen recommendation.

(6 marks)

Question 10a)

The beginning cash position was a positive cash balance of \$62,768 for *Barbara's Bakery*, closing with a negative cash balance of \$1,192 at the end of the year. The decrease in cash held across the year of \$63,960 was the result of two large outflows of \$35,100 for investing activities and \$33,000 for financing activities which together completely outweighed the small inflow of \$4,140 from operating activities.

- Stronger responses were explained in good detail and were accompanied by the relevant figures to substantiate the answer. Weaker responses simply stated the opening and closing balances.
 - One mark for commenting on initial cash position and ending cash position.
 - One mark for commenting on the net decrease and how it was created.

(2 marks)

Question 10b)

Barbara's Bakery had a small inflow from the sale of ovens for \$500. This was outweighed by two considerably larger outflows of \$3,100 for a new delivery vehicle and \$4,600 for new ovens. This resulted in a cash deficit of \$35,100 from investing activities.

- 1 mark for identifying the inflow and the outflows.
- 1 mark for highlighting that the outflows outweighed the inflow and/or mentioning the overall deficit from investing activities.

(2 marks)

Question 10c)

Barbara's Bakery received an inflow from the bank loan for \$45,000. This was outweighed by a larger outflow of \$78,000 for drawings. This resulted in a cash deficit of \$33,000 from financing activities.

- 1 mark for identifying the inflow and the outflow.
- 1 mark for highlighting that the outflow outweighed the inflow and/or mentioning the overall deficit from financing activities.

(2 marks)

Question 10d)

Inflows from operating activities were relatively high at \$604,130, supported by Sales of \$595,930, but this was insufficient to cover the considerable outflows of \$599,990, especially influenced by high payments to suppliers (\$347,890) and payments to employees (\$201,500). This resulted in a low level of cash generated of \$4,140 which is an issue moving forward and might lead to the business struggling to generate sufficient cash flows in order to operate the business.

Recommendations:

- Increase receipts from customers by advertising further to promote sales or by raising the selling price if this does not result in a decrease in sales.
- Find new suppliers to lower their costs whilst still maintaining quality.
- Roster fewer employees, increasing numbers only at busy times to lower the employment costs.
- Stronger students identified multiple issues and presented them with the relevant figures to substantiate their answers. They were also able to provide valid recommendations in line with the stimulus and identified how these recommendations would be beneficial moving forward. Weaker students simply identified worrying figures from the Cash Flow Statement.
 - 2 marks for two issues resulting from operating activities.

- 2 marks for one recommendation explained with detailed implications or 2 recommendations explained in less detail.

(4 marks)

Section A – Criterion 1

This was a good test for students of their knowledge and understanding and a good reflection of the course content in intent. Many of the criterion elements for an 'A' rating require students to explain rather than just describe and this is what separates 'A' standard answers from 'B' or 'C' ratings for this criterion.

Suggestions To Teachers

Teachers should teach students to refer to particular reports studied during the year (Income Statement, Balance Sheet, Cash Flow Statement and Cash Budget) and the particular information on each report that can be used by various stakeholders to make judgements about various aspects of the business. Many students can talk in generalities but fall short of giving specific examples of information that can be used to inform decision making.

Questions 1a) and b):

Questions 1a) and b) were the more basic of questions in this section as they ask students to give definitions and examples which most students were able to do quite well.

Question 1c):

Students need training in these types of questions; for example, the purpose of accrual accounting is to arrive at a profit figure that is as accurate as possible – very few students got to this point in their answers.

Question 2a)

These types of questions where students are asked to explain is where many fall short. Teachers should focus on helping students be clear in their explanations and encourage them to strive for understanding not just rote recall. This is obviously not achievable for all students, but it is a worthwhile goal.

Question 2b)

Students often got the gist of what to say but couldn't identify the particular accounting assumption. It can be useful to use memory aids such as acronyms to assist with recall of these (eg: Qualitative Characteristics of reports: CRRUM)

Students sometimes confuse the Matching Principle with the Period assumption. Assumptions are the guidelines for recording transactions (journalling) whereas Characteristics are about the information in reports and how/when they are presented.

Section B – Criterion 2

Question 3

High performing students were able to answer most if not all the general journal entries correctly. Some high performing students may have struggled with the complex transactions that included forgetting to include the GST with the business's rent on 14 May or getting confused with the drawings on 29 May.

Weaker responses struggled with the correct accounts/numbers on entries that involved GST.

Overall, most students were compliant with the expected format and the majority received full marks for this part.

Question 4

High-performing students were able to evaluate the full double entry nature of the transactions and received full marks.

Weaker responses left out the date or balance day in their answer and didn't explain that GST was a part of the transaction.

Question 5

High-performing students were able to correctly complete the bank reconciliation statement or may have had minor errors which included no dates in Cash Receipts Journal (CRJ), Cash Payments Journal (CPJ) or General Ledger account. The other minor error was the incorrect placement of the bank error, some students put this in the CRJ/CPJ or took the amount away in the Bank Reconciliation.

Weaker responses didn't have the correct structure for the Cash at Bank Ledger accounts and the Bank Reconciliation. They may have completed the CRJ and CPJ correctly but the ability to then transfer this information across to preparing a bank reconciliation statement which included a complex item was the major difference between students.

Section C – Criterion 3

Question 6

High performing students were able to correctly complete both financial statements; some may have had minor errors due to adjustments.

Weaker responses had poor layout of financial statements or included the following mistakes:

- inventory loss not included in the COGS account
- interest was a revenue as it was on the Term Deposit. This should have been put in the Other Revenue account
- bank overdraft was often confused as a Non-current Liability
- inventory was frequently not adjusted
- interest revenue was often mistakenly added to the value of the Term Deposit itself.

Question 7

High performing students were able to correctly complete the cash budget.

Weaker performing students had trouble with calculating the discount.

It is important that:

- book entries are ignored
- the term receipts from Accounts Receivable is used rather than the name of the account itself
- the correct title is included.

Section D – Criterion 4

Question 8

This question was answered well by many students.

Question 9

Higher performing students were able to include a reason/s for the increase or decrease in the profitability ratio and debt ratio with specific figures or occurrences referred to from the stimulus.

Weaker responses compared the trend and industry average of the profitability ratios and the debt ratios.

Question 10

Higher performing students identified multiple issues and presented them with the relevant figures to substantiate their answers. They were also able to provide valid recommendations in line with the stimulus and identified how these recommendations would be beneficial moving forward.

Weaker responses simply identified worrying figures from the Cash Flow Statement and stated the opening and closing balances.

APPENDIX 1: INFORMAL (PENCIL) BALANCES

a) Example of a formal balancing of an account

Dec	1	Balance b/d	20 000	Dec	2	Cost of Goods Sold	750
	6	Cash	1 000		4	Cost of Goods Sold	1 550
	12	D Austin	400		19	D Austin	100
					24	Drawings	250
					31	Balance c/d	18 750
			<u>\$21 400</u>				<u>\$21 400</u>
Jan	1	Balance b/d	18 750				

b) Example of an informal or pencil/circle balance

Dec	1	Balance b/d	20 000	Dec	2	Cost of Goods Sold	750
	6	Cash	1 000		4	Cost of Goods Sold	1 550
	12	D Austin	400		19	D Austin	100
					24	Drawings	250
			18750				

APPENDIX 2A: INCOME STATEMENT PRO-FORMA

	\$	\$	\$
Net Sales			
.....
.....
Less Cost of Sales			
.....
.....
.....
.....
.....
Gross Profit		
Add Other Revenue			
.....
.....
.....
.....
Less Other Operating Expenses		
Less Other Expenses			
<i>Selling and Distribution Expenses</i>			
.....
.....
.....
.....
.....
<i>General & Administrative Expenses</i>			
.....
.....

.....
.....
.....
.....
Total Liabilities				\$
NET ASSETS				\$ _____
OWNER'S EQUITY				
.....	
.....	
.....	\$ _____

APPENDIX 3: CASH FLOW STATEMENT PRO-FORMA

	\$	\$	\$
Cash Flows from Operating Activities			
Inflows			
Outflows			
Net Cash provided by Operating Activities			
Cash Flows from Investing Activities			
Inflows			
Outflows			
Net Cash provided by Investing Activities			
Cash Flows from Financing Activities			
Inflows			
Outflows			
Net Cash provided by Financing Activities			
Net Increase (Decrease) in Cash Held			
Cash at Beginning of the Reporting Period			
Cash at End of the Reporting Period			

Excess of Payments over Receipts
Bank Balance at the end of the month			

APPENDIX 5: BAD AND DOUBTFUL DEBTS (SIMPLIFIED METHOD)

WRITING OFF BAD DEBTS

General Journal Extract

	Dr	Cr
Bad & Doubtful Debts	XX	
GST Collected	XX	
Accounts Receivable		XX
(Debt Written off as Bad)		

DECREASING THE PROVISION

Trial Balance extract as at 30 June 20XX (before balance day adjustment)

	Dr	Cr
Bad & Doubtful Debts	130 000	
Provision For Doubtful Debts		15 000

Additional information requires the provision to be \$10 750. Simply create the journal entry to make the Provision for Doubtful Debts \$10 750.

General Journal Extract

	Dr	Cr
Provision For Doubtful Debts	4 250	
Bad & Doubtful Debts		4 250
(Provision for doubtful debts to \$10 750)		

Trial Balance extract as at 30 June 20XX (after balance day adjustment)

	Dr	Cr
Bad & Doubtful Debts	125 750	
Provision For Doubtful Debts		10 750

INCREASING THE PROVISION

Trial Balance extract as at 30 June 20XX (before balance day adjustment)

	Dr	Cr
Bad & Doubtful Debts	10 000	
Provision For Doubtful Debts		15 000

Additional information requires the provision to be \$16 000. Simply create the journal entry to make the Provision for Doubtful Debts \$16 000.

General Journal Extract

	Dr	Cr
Bad & Doubtful Debts	1 000	
Provision For Doubtful Debts		1 000
(Provision for doubtful debts to \$16 000)		

Trial Balance extract as at 30 June 20XX (after balance day adjustment)

	Dr	Cr
Bad & Doubtful Debts	11 000	
Provision For Doubtful Debts		16 000

APPENDIX 6: GENERAL JOURNALS

The following are examples of acceptable formats/setting out for General Journals

Date	Particulars	Debit	Credit
18 th June	Wages	400	
	Cash at Bank		400
	(Paid Wages)		
19 th June	Insurance	1500	
	GST Clearing	150	
	Cash at Bank		1650
	(Paid Lighthouse Insurance brokers for Insurance for the months July to December)		

Dates may also be presented in formats such as: June 19th, 19th June 2014, 19/6/2014.

APPENDIX 7: DISPOSAL OF NON-CURRENT ASSETS (SIMPLIFIED METHOD)

Students simply need to know how to calculate a gain or a loss on disposal based on information given in additional information and how to classify the gain as revenue and the loss as an expense in the statements.

Do not use Disposal or Gain and Loss on Disposal accounts. Journal entries **will not** be required.

Written Down Value (book value) = Cost – Accumulated Depreciation.

THEREFORE:

Gain or Loss on Disposal = Sale Price (or Trade In) - Written Down Value (book value).

PRACTICAL EXAMPLE

Equipment cost \$600

Accumulated Depreciation \$200

Price received on the sale of the equipment was \$300

$$\therefore \text{WDV} = \$600 - \$200 = \$400$$

$$\therefore \text{Gain (or Loss) on Disposal} = \$300 - \$400 = (\$100).$$