

Maximising your Accounting Unit 4 exam performance

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This article outlines errors and weaknesses in student answers to the 2010 VCE Accounting Unit 4 examination, as outlined in the Victorian Curriculum and Assessment Authority's (VCAA) 2010 Unit 4 Exam Assessment Report. This Assessment Report can be downloaded from the VCAA website at www.vcaa.vic.edu.au/vce/exams/examsassessreports.html.

Also included are revision tasks that should assist students overcome the errors and weaknesses evident in responses to the 2010 Unit 4 examination. Some questions have been reproduced but do not include an analysis, which indicates that these questions were generally well answered. Many of the general comments are similar to those in the 2010 VCAA Assessment Report and the 2010 Unit 4 revision article published in *Compak* Issue 7 last year.

Exam analysis

The mark division for the 2010 November examination was:

Question	Practical	Theory
Question 1	25	20
Question 2	31	14
Total	56	34

To quote from the 2010 VCAA Assessment Report on the Accounting Unit 4 examination:

'Teachers and students are reminded that there is no pre-determined weighting between practical and theoretical-type questions.'

Source: Victorian Curriculum and Assessment Authority, 2010 Assessment Report for Accounting GA 3, Written Examination 2, page 1

General comments

- Some students had difficulty in completing the examination paper in the allotted time.
- Students need to practise answering questions within the time frame so that they can complete the entire examination paper.
- A significant number of students did not complete the Budgeted Cash Flow Statement (Q2.1.3) and the Budgeted Profit and Loss Statement (Q2.1.4).
- Generally, students used the correct titles for journals, ledgers and accounting reports. However, the following errors were noticed:

Incorrect title	Correct title
Debtors control in Cash Flow Statement	Cash collected from debtors
Stock control in Cash Flow Statement	Cash purchases of stock
Depreciation expense	Depreciation of ... (name of asset)

- When purchasing a non-current depreciable asset on credit, the term 'Sundry Creditor ...' (name of creditor) needs to be used.
- Students need to check the number of marks available for a question and ensure that their answers have sufficient detail in order to score full marks.

Consequential errors

Students are *not* penalised for consequential errors. For example, in Q1.1.1 and Q1.1.2.

Theory questions

It is evident from reading the examiners' comments about theory questions that students need a lot of practice on theory questions. Some of the areas of weakness that were highlighted in the report are:

- some theory questions contain restrictions, for example 'excluding advertising ...', yet some students included these restrictions
- if a question is worth 2 marks then students need to provide two points and write for two minutes.

Question 1: Greenfinger Nursery

Question 1.1.1—calculation of accumulated depreciation

Marks	0	1	Average
%	59	41	0.4

Weaknesses, problems and errors	Ways to improve
Students could not work out the length of time the asset had been owned to calculate accumulated depreciation.	Practise working out the length of ownership of a non-current asset. Practise calculations.

Question 1.1.2—calculation of depreciation expense

Marks	0	1	2	Average
%	51	22	27	0.8

Weaknesses, problems and errors	Ways to improve
<p>Students could not work out the figure needed to calculate the depreciation.</p> <p>Students did not recognise that \$25 000 of the computers had been owned for the full 12 months.</p> <p>They did not realise that the new computer equipment purchased had been owned for less than one year.</p>	<p>Practise exercises to check the length of the reporting period, as it may not always be a year; it could be one month, three months or six months.</p> <p>Be able to work out the historical cost of an asset to be depreciated.</p>

Question 1.1.3—posting to the General Ledger

Marks	0	1	2	3	4	5	6	7	Average
%	31	9	7	6	7	10	13	18	3.2

Weaknesses, problems and errors	Ways to improve
<p>Not being able to identify the value of the computer that was sold. Using incorrect titles.</p> <p>Lack of knowledge of the entries required for the disposal of the asset—not recording cash receipt (\$2 000) and not recording loss on sale.</p> <p>Did not use the figure calculated in the first part of the question.</p>	<p>Practise depreciation expense and accumulated depreciation and disposal recording entries.</p> <p>Use the correct titles for General Ledger accounts.</p> <p>Be able to calculate profit or loss on disposal.</p>

Question 1.1.4—disposal of non-current asset

Marks	0	1	2	Average
%	44	22	34	0.9

Weaknesses, problems and errors	Ways to improve
<p>Students needed to provide a detailed explanation to earn full marks.</p> <p>The less successful responses did not apply theoretical knowledge to the scenario.</p>	<p>Practise writing theory answers and link the answer to the scenario.</p>

Complete practice tasks 1.1, 1.2 and 1.3 for Questions 1.1.1, 1.1.2 and 1.1.3

Question 1.2.1—treatment of payment of accrued revenue in subsequent period

Marks	0	1	Average
%	43	57	0.6

Weaknesses, problems and errors	Ways to improve
Not using the correct title in the 'Details' column. Most students completed the entry in the Bank column correctly; some did not complete the entry in the GST and Sundries columns.	Practise journal entries, making sure all relevant columns are completed and the correct titles are used.

Question 1.2.2—adjustment for revenue account

Marks	0	1	2	Average
%	41	52	7	0.7

Weaknesses, problems and errors	Ways to improve
Many students knew the correct double entry but did not calculate the \$ amount correctly.	Know the double entry and practise calculating the \$ amounts.

Question 1.2.3—adjusting and closing entries for accrued revenue

Marks	0	1	2	3	Average
%	58	27	11	4	0.6

Weaknesses, problems and errors	Ways to improve
Not dealing with prepaid revenue and accrued revenue in the same question.	Practise problems that deal with prepaid and accrued revenue in the same problem.

Complete practice task 2.1 and 2.2 for Questions 1.2.1, 1.2.2 and 1.2.3

Question 1.2.4—accounting principles

Marks	0	1	2	3	Average
%	28	29	21	22	1.4

Weaknesses, problems and errors	Ways to improve
Confusion between accounting principles and qualitative characteristics.	Practise theory questions. Learn what is a qualitative characteristic and an accounting principle. Read the question carefully.

Complete practice task 2.3 for Question 1.2.4

Question 1.3.1—analysis of business performance

Marks	0	1	2	Average 1
%	32	35	33	

Weaknesses, problems and errors	Ways to improve
Not being able to define accounting terms and explain them and all aspects of the definition.	Learn all of the basic accounting terms by developing a glossary.

Question 1.3.2—analysis of business performance

Marks	0	1	2	Average 0.5
%	68	18	14	

Weaknesses, problems and errors	Ways to improve
Not being able to explain that the Return on Assets is affected by the relationship of Asset Turnover and Net Profit Ratio.	Students need to explain what is contained in a ratio/measure. They also need to be able to show how it is affected by other ratios.

Complete practice task 3

Question 1.4.1—recording in stock card

Marks	0	1	2	3	4	Average 3.2
%	6	6	9	22	57	

Weaknesses, problems and errors	Ways to improve
Omitting the document number in the 'Details' column.	Practise completing Stock Cards.

Question 1.4.3—record a stock write-down in the General Journal

Marks	0	1	2	Average 1.5
%	15	21	63	

Weaknesses, problems and errors	Ways to improve
Some students did not attempt this question after successfully completing the rest of the Stock Card.	Practise stock entries for the Stock Card and General Journal—purchase, sale, stock loss/gain and stock write-down. Make sure all parts of the entry are completed.

Question 1.4.4—valuation of stock

Marks	0	1	2	Average 0.6
%	62	21	17	

Weaknesses, problems and errors	Ways to improve
Not knowing that the stock was valued at the lower of cost and net realisable value.	Students need to know that when stock is sold below cost price the lower of cost and net realisable value is used. The also need to refer to the scenario.

Question 1.5.2—period and product costing

Marks	0	1	2	3	4	Average 2
%	30	9	20	13	27	

Weaknesses, problems and errors	Ways to improve
Not understanding how the treatment of a cost as a period cost or as a product cost will affect profit.	Students need to understand the meaning of product and period costs. Practise problems that require answers that fully explain how the differences occur.

Complete practice task 4 for stock valuation, recording and stock write-down

Question 2: Total Towels

Question 2.1.1—reconstruction of Budgeted Creditors control and Stock control

Marks	0	1	2	3	4	5	6	Average 3.8
%	14	7	8	3	11	23	27	

Answered quite well.

Question 2.1.2—reconstruction of Budgeted Debtors control account

Marks	0	1	2	3	Average 2.0
%	23	9	17	51	

Answered very well.

Question 2.1.3—reconstruction of Budgeted Cash Flow Statement

Marks	0	1	2	3	4	5	6	7	8	9	10	Average 4.7
%	23	4	5	5	6	7	10	12	14	9	5	

Answered reasonably well.

Question 2.1.4—preparation of Budgeted Profit and Loss Statement

Marks	0	1	2	3	4	5	6	Average
%	27	9	11	16	14	13	9	2.6

Weaknesses, problems and errors	Ways to improve
Cash Flow Statement. Poor knowledge of Cash Flow Statement. Inclusion of 'alien' entries, for example, Credit Sales, Depreciation and Cost of Sales. Reporting accrued wages—they have not been paid yet. Incorrectly reporting Interest as a Financing Activity. Not including brackets for outflows. Not completing the summary for each of the three Activities; that is, net cash in/out flow from ... Profit and Loss Statement. Not adjusting Wages Expense for the Accrued Wages. Including aliens—Cash at beginning. Omitting to include Stock Loss, Profit on Disposal, Interest and Depreciation of Fixtures and Fittings.	Practise preparing Cash Flow Statements, Profit and Loss Statements and Balance Sheets revision from Unit 3. Know which items belong in each activity. Practise reconstructing ledger accounts.

Complete practice task 5 for Questions 2.1.1, 2.1.2, 2.1.3 and 2.1.4

Question 2.1.5—budgets and control

Marks	0	1	2	Average
%	39	25	36	1

There was a wide range of responses.
 Many students did not attempt this question.

Question 2.1.6—role of budgets

Marks	0	1	2	Average
%	50	28	22	1

Many students did not realise that there is a role for budgets other than to prepare them.

Complete practice task 6 for Questions 2.1.5 and 2.1.6

Question 2.2.2—analysis of performance

Marks	0	1	2	Average
%	56	18	26	0.7

Many students did not recognise the possible differences between two measures of performance.

Question 2.2.3

Marks	0	1	2	Average
%	40	35	24	0.9

Students did not read the question properly and included the constraints.

Complete practice task 7 for Question 2.2.3

Question 2.3.1—recording of prepaid sales revenue

Marks	0	1	Average
%	60	40	0.4

This was the second question regarding the recording of prepaid revenue in this examination. Some students lost the mark through having an incorrect title in the ledger accounts.

Question 2.3.2—recording of prepaid revenue and subsequent delivery

Marks	0	1	2	3	4	5	Average
%	34	11	14	12	15	15	2.1

Many students did not know the correct entry in the General Journal.

Complete practice task 8 for Questions 2.3.1 and 2.3.2

Practice tasks

Practice task 1

Mountain Ltd is a business that sells a wide range of ski equipment, including skis, clothing and accessories. The company has three stores in the suburbs and the city. In order to improve sales, it bought new Display Stands costing \$48 000, plus GST of \$4 800, on 1 January 2010. The Display Stands are to be depreciated at a rate of 40% per annum on historical cost.

On 1 March 2011, new Display Stands were bought from ACE Ltd, as evidenced by the invoice below. These replaced Display Stands that had cost \$18 000 when purchased on 1 January 2010. The original Display Stands were sold for \$2 000 cash on 1 January 2011.

ACE Ltd		Invoice: 890
44 Third Ave		
Eastville		Date: 1 March 2011
Sale to:	Mountain Ltd	
	Plenty Road	
	Smithtown	
Description		Total \$
3 Model #24 Display Stands		10 000 1 000
2 years insurance Installation		<u>2 000</u> 13 000
		<u>1 300</u>
+ GST		\$14 300
TOTAL COST		
Anna Smith		

Required

- 1.1 **Calculate** the Accumulated Depreciation for the section of the Display Stands that were sold on 1 January 2011.
- 1.2 **Calculate** the Depreciation Expense for the Display Stands for the year ending 31 December 2011.
- 1.3 **Show** how the entries would appear in the General Ledger for:
 - the disposal of the Display Stands on 1 January 2011
 - the purchase of the Display Stands on 1 March 2011
 - the Accumulated Depreciation of Display Stands on 31 December 2011 after all entries have been posted.

1 + 2 + 8 = 11 marks

Practice task 2

On 1 April 2011 the business put \$100 000 surplus funds into a high-interest Investment account with Eastroc Bank earning 6% per annum for a term of 4 months, with interest on the deposit to be paid on maturity.

Required

- 2.1 Calculate** how the following General Ledger accounts would appear on 30 June 2011 after all relevant entries, including adjusting and closing entries, have been made:
- Interest Revenue
 - Accrued Interest Revenue.
- 2.2** In the Cash Receipts Journal **record** the entry to show when the fixed deposit matures and is transferred back to Mountain Ltd. (Receipt #32)
- 2.3 Explain** with reference to a qualitative characteristic why an adjustment should be made for the Accrued Interest Revenue.

3 + 3 + 3 = 9 marks

Practice task 3

Measure of performance	2010	2011
Working Capital Ratio	1.6:1	1:1
Quick Asset Ratio	0.9:1	0.7:1

Required

Using the above information, **explain** why this business may have problems in meeting its short-term financial obligations.

2 marks

Practice task 4

Southern Appliances sells household appliances and has many items of stock on hand.

One of the items, SupaSpeed food blenders (item #345), is a popular seller and the business buys it in 80 unit orders from an overseas manufacturer. Each batch is delivered with other stock items bought from the same manufacturer. The information you have is as follows:

Item	\$	GST \$	Total price \$
Invoice price per unit	160	16	176
Cost of modification to Australian electrical standards (per unit)	20	2	22
Monthly delivery charges	600	60	60
Repackaging per unit	10	1	11
Insurance on all stock in store (per year)	2 800	280	3 080

Required

- 4.1 Calculate** the cost of each unit of stock item #345 that will be recorded on the Stock Card.
- 4.2 Explain**, using the information above, how product and period costing will affect the calculation of profit.
- 4.3** Some of the stock of Southern Appliances has been damaged in a storm that flooded the shop. **Explain** with reference to one accounting principle why this damage to stock should be recognised in the accounts of Southern Appliances.
- 4.4** On 30 June 2011 it is found that 3 units of the SupaSpeed food blenders (Stock item #345) have been scratched but can be sold. It is estimated that they will sell for \$70 (plus GST \$7) with \$10 (plus GST \$1) direct selling expenses per unit.
- Prepare** the General Journal entry required to write down the value of the stock on 30 June 2011. A narration is **not** required.

1 + 2 + 2 + 2 = 7 marks

Practice task 5

Sam's Housewares is a business owned and operated by Sam. The following information is provided at 30 June 2011. All stock is purchased on credit. The following balances were presented:

Item	1 January 2011 (Actual \$)	30 June 2011 (Budgeted \$)
Capital—Sam	263 098	not provided
Cash at Bank	50 000	not provided
Debtors Control	34 000	38 000
Creditors Control	70 000	32 000
Stock Control	90 000	50 000

Additional budgeted information:

Payments to Creditors	\$690 000
Discount Revenue	\$8 000
Drawings—Stock	\$6 000
Drawings—Cash	\$32 000
Loan—Eastern Bank	\$57 000
Bad Debts	\$4 500
Computer System (1 January 2011)	\$22 000
Accumulated Depreciation of Computer System	\$9 000
Accrued Salaries (30 June 2011)	\$4 000
Stock Loss	\$5 000

Additional information:

- Total sales are expected to increase by 5% from the previous period of \$920 000. Credit sales will be at 30% of total sales.
- The loan from Eastern Bank will be repaid, plus interest of \$10 000. The interest is not included in the operating expenses listed below.
- New display counters will be built and installed by 1 March 2011. The cost will be \$200 000. The purchase from AC Ltd will be financed by Sam contributing \$80 000 cash and Eastern Bank providing \$120 000. No repayments on this loan will be made during this period. The display counters are expected to have a life of 4 years with a residual value of \$20 000.
- Discount expense is estimated to be 1% of credit sales.
- The total cash operating expenses are estimated at a decrease of 15% over the previous period's amount of \$330 000. This amount includes an insurance policy of \$12 000 covering the 12 months from 1 July 2011.
- Stock write-down is 1% of the stock on hand on 1 January 2011.
- It is estimated there will be sales returns of \$1 000 during the period. Their cost price will be \$400.
- The depreciation expense on the computers will be \$4 400 per annum.

Required

- 5.1 Reconstruct the Creditors Control account to calculate the budgeted credit purchases of stock.
- 5.2 Reconstruct the Debtors Control account to calculate the budgeted cash receipts from debtors.
- 5.3 Reconstruct the Stock Control account.
- 5.4 Reconstruct the budgeted Cost of Sales account.
- 5.5 Prepare the Budgeted Cash Flow Statement for the period ending 30 June 2011.
- 5.6 Prepare the Budgeted Profit and Loss Statement for the period ending 30 June 2011.
- 5.7 Show how the non-current assets would appear in the Balance Sheet on 30 June 2011.
- 5.8 Show how the Owner's Equity would appear in the Balance Sheet on 30 June 2011.

3 + 4 + 4 + 3 + 11 + 7 + 2 + 3 = 37 marks

Practice task 6**Required**

Sam felt that the only reason for preparing a Cash Budget is to provide him with information about the operating activities of the business. **Outline** two other reasons for Sam preparing a Cash Budget.

2 marks

Practice task 7

Measure of performance	2009	2010	2011
Debtors turnover (days)	31	36	40

Required

Identify two problems that could arise for the business if this trend continues into the future.

2 marks

Practice task 8

During May 2011 a customer, East FC placed an order with the business.

East FC Reserve Road Eastville	Order #256
Dear Jim Please see attached Order Form #256 for the supply of the 5 sets of weights as per our discussion with your sales rep. Enclosed is Cheque #403 as a deposit of \$300.	East FC Reserve Road Eastville 5 June 2011
Regards J. Michael Secretary	SUPPLIER Jim's Trading 30 Short Street Eastville
	Please supply the following: 5 sets of weights @ \$600 each plus total GST of \$300. See attached letter. Delivery will occur 30 June. J. Michael Secretary

Jim's Trading works on a cost price mark-up of 50% on sales.

Required

8.1 Record the deposit in the Cash Receipts Journal. (Receipt # 58)

1 mark

8.2 The sets of weights were delivered on the due date. **Prepare** the General Journal and Sales Journal entries needed on 30 June 2011 to record this transaction.

2 + 3 = 5 marks

Practice task answer book

Practice task 1

Question 1.1.1

	\$
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1 mark

Question 1.1.2

	\$
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2 marks

Question 1.1.3

Display Stands					
2011	Cross Reference	\$	2011	Cross Reference	\$

Accumulated Depreciation of Display Stands					
2011	Cross Reference	\$	2011	Cross Reference	\$

Disposal of Display Stands					
2011	Cross Reference	\$	2011	Cross Reference	\$

8 marks

Practice task 2

Question 2.1

Interest Revenue					
2011	Cross Reference	\$	2011	Cross Reference	\$

Accrued Interest Revenue					
2011	Cross Reference	\$	2011	Cross Reference	\$

3 marks

Question 2.2

Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries

3 marks

Question 2.3

Qualitative characteristic
Explanation

3 marks

Practice task 3

Explanation

2 marks

Practice task 4

Question 4.1

\$

1 mark

Question 4.2

Explanation

2 marks

Question 4.3

Accounting principle
Explanation

2 marks

Question 4.4

General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

2 marks

Practice task 5

Question 5.1

Creditors Control					
2011	Cross Reference	\$	2011	Cross Reference	\$

3 marks

Question 5.2

Debtors Control					
2011	Cross Reference	\$	2011	Cross Reference	\$

4 marks

Question 5.3

Stock Control					
2011	Cross Reference	\$	2011	Cross Reference	\$

4 marks

Question 5.4

Cost of Sales					
2011	Cross Reference	\$	2011	Cross Reference	\$

3 marks

Question 5.5

SAM'S HOUSEWARES

Cash Flow Statement for the period ending 30 June 2011

Cash Flows from Operating Activities	\$	\$	\$
Net Cash flows from Operating Activities			
Cash Flows from Investing Activities			
Net Cash flows from Investing Activities			
Cash Flows from Financing Activities			
Net Cash flows from Financing Activities			
Net Cash Flows for the period			
<i>add</i> Bank Balance at 1 January 2011			
Budgeted Bank Balance at 30 June 2011			

11 marks

Question 5.6

Calculation space

SAM'S HOUSEWARES

Profit and Loss Statement for the period ending 30 June 2011

	\$	\$
Revenue		

7 marks

Question 5.7

Non-current Assets	\$	\$

2 marks

Question 5.8

Owner's Equity	\$	\$

3 marks

Practice task 6

Explanation

2 marks

Practice task 7

Problem 1
Problem 2

2 marks

Practice task 8

Question 8.1

Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Discount Expense	Debtors	Cost of Sales	Sales	GST	Sundries

1 mark

Question 8.2

General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

2 marks

Sales Journal

Date 2011	Debtor	Invoice No.	Cost of Sales	Sales	GST	Total Debtors

3 mark

Practice task solutions

Practice task 1

Question 1.1

Historical cost: \$18 000

Depreciation rate: @ 40% per annum

Depreciation expense: \$18 000 @ 40% = \$ 7200 per annum or \$600 per month

Accumulated Depreciation: \$600 x 12 months

\$ 7 200

1 mark for correct calculation

1 mark

Question 1.2

Bought on 1/1/2010: \$48 000 – \$18 000 disposed on 1/1/2011 12 months

40% of \$30 000 = **\$12 000**

Bought on 1 March 2011—\$12 000

40% of \$12 000 = \$4 800 per year or \$400 per month

10 months @ \$400 = **\$4 000**

\$ 16 000

1 mark for correct calculation of existing Display Stands

1 mark for correct calculation of new Display Stands

1 mark

Question 1.3

Display Stands					
2011	Cross Reference	\$	2011	Cross Reference	\$
Jan. 1	Balance	48 000	Jan. 1	Disposal of Display Stands	* 18 000
Mar. 1	Sundry Creditor—ACE Ltd	* 12 000	Dec. 31	Balance	42 000
		\$60 000			\$60 000

Accumulated Depreciation of Display Stands					
2011	Cross Reference	\$	2011	Cross Reference	\$
Jan. 1	Disposal of Display Stands	* 7 200	Jan. 1	Balance	19 200
Dec. 31	Balance	28 000	Dec. 31	Depreciation of Display Stands	* 16 000
		\$35 200			\$35 200

Disposal of Display Stands					
2011	Cross Reference	\$	2011	Cross Reference	\$
Jan. 1	Display Stands	* 18 000	Jan. 1	Accum. Depn. of Display Stands	* 7 200
			1	Bank	* 2 000
			1	Loss on Disposal of Display Stands	* 8 800
		\$18 000			\$18 000

8 marks

* 1 mark for each entry marked

Practice task 2

Question 2.1

Interest Revenue					
2011	Cross Reference	\$	2011	Cross Reference	\$
June 30	Profit and Loss Summary	1 500	June 30	Accrued Interest Revenue	1 500

Accrued Interest Revenue					
2011	Cross Reference	\$	2011	Cross Reference	\$
June 30	Interest Revenue	1 500			

3 marks

1 mark for each correct entry

Question 2.2

Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
July 30	Interest Revenue	32	102 000						500
	Accrued Interest Revenue								1500
	Investment a/c								100 000

3 marks

1 mark each for splitting up the amount and for the entry in the correct column

Question 2.3

Qualitative characteristic Relevance
Explanation By adjusting the Interest Revenue account the business can see how much interest revenue was earned in the reporting period and gives a more accurate measurement of profit. Relevance means that accounting reports, including all information that is up-to-date, will be useful for decision-making.

3 marks

*1 mark for correct qualitative characteristic
2 marks for explanation—need to make 2 points*

Practice task 3

Explanation
The difference between the two ratios is that the Quick Asset Ratio excludes stock, prepayments and bank overdraft, whereas the Working Capital Ratio does not. The Quick Asset ratio amount indicates that the business may not have sufficient immediate liquidity to meet its current liabilities. The business may have a large amount of stock and prepaid expenses. These are often difficult or slow to turn into cash. It means that the business may have liquidity problems.

2 marks

Need to make 2 points

Practice task 4

Question 4.1

Invoice price per unit	\$160	
Cost of modification	20	
Repackaging	<u>10</u>	
		\$ 190

1 mark

1 mark for correct calculation

Question 4.2

Explanation
The product costs (modification and repacking) will be part of the cost of sales and will be deducted from revenue only when the stock item is sold.
The period costs (delivery charges and insurance) will be deducted from revenue whether or not the stock item has been sold. The costs will become part of the general operating expenses of the business.

2 marks

1 mark for each explanation of product and period costs

Question 4.3

Accounting principle Conservatism
Explanation Losses should be recognised as soon as they are evident so that expenses are not understated and assets overvalued.

2 marks

*1 mark for accounting principle**1 mark for explanation***Question 4.4****General Journal**

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
June 30	Stock Write-down	390			
	Stock Control		390		

2 marks

1 mark for each completely correct entry

The \$ amount of stock write-down may vary depending on the calculation in Q4.1. Students are not penalised for a consequential

Cost price per unit \$190 (estimated selling price \$70—direct selling expenses \$10) = \$130

Write-down = 3 units x \$130 = \$390

Practice task 5

Question 5.1

Creditors Control					
2011	Cross Reference	\$	2011	Cross Reference	\$
June 30	Bank (payments to creditors) *	690 000	Jan. 1	Balance	70 000
30	Discount Revenue *	8 000	June 30	Stock Control *	660 000
30	Balance	32 000			
		730 000			730 000

3 marks

Question 5.2

Debtors Control					
2011	Cross Reference	\$	2011	Cross Reference	\$
Jan. 1	Balance	34 000	June 30	Sales Returns *	1 000
June 30	Sales (Credit)	289 800	30	Bad Debts *	4 500
			30	Discount Expense *	2 898
			30	Bank (receipts from debtors) *	277 402
			30	Balance	38 000
		323 800			323 800

4 marks

* 1 mark

Question 5.3

Stock Control					
2008	Cross Reference	\$	2008	Cross Reference	\$
Jan. 1	Balance	90 000	June 30	Stock Loss *	5 000
June 30	Cost of Sales *	400	30	Stock Write-down *	900
30	Creditors Control	660 000	30	Drawings	6 000
			30	Cost of Sales *	688 500
			30	Balance	50 000
		750 400			750 400

4 marks

* 1 mark

Question 5.4

Cost of Sales					
2008	Cross Reference	\$	2008	Cross Reference	\$
June 30	Stock Control *	688 500	June 30	Stock Control *	400
			30	Profit and Loss Summary *	688 100
		688 500			688 500

3 marks

* 1 mark

Question 5.5

SAM'S HOUSEWARES

Cash Flow Statement for the period ending 30 June 2011

Cash Flows from Operating Activities	\$	\$	\$
Cash Sales *	676 200		
Receipts from Debtors *1	277 402	953 602	
Operating Expenses *	(268 500)		
Prepaid Expenses—Insurance *	(12 000)		
Interest	(10 000)		
Payments to Creditors *1	<u>(690 000)</u>	<u>(980 500)</u>	
Net Cash out flows from Operating Activities *3			(26 898)
Cash Flows from Investing Activities			
Display Counters *	(200 000)		
Net Cash out flows from Investing Activities *3			(200 000)
Cash Flows from Financing Activities			
Loan—Eastern Finance *	120 000		
Capital—Sam *	80 000		
Drawings *	(32 000)		
Loan Repayment *	<u>(57 000)</u>		
Net Cash in flows from Financing Activities *3			<u>111 000</u>
Net Cash Flows for the Period *2			(115 898)
add Bank balance at 1 January 2011 *2			<u>50 000</u>
Budgeted Bank Balance at 30 June 2011 *2			(65 898)

11 marks

*1—1 mark for both correct

*2—1 mark for all correct

*3—1 mark for all inflows and outflows correct

* 1 mark for all correct

Question 5.6

Expenses	
Paid	280 500
- Prepaid expenses	<u>-12 000</u>
	268 500
+ Accrued expenses	<u>4 000</u>
	272 500
Depreciation of computer	
\$4400 per year	
This period is 6 months = \$2200	
Depreciation of display counters	
Cost \$200 000 – Residual \$20 000	<u>\$180 000</u>
	4 = \$45 000 per annum/\$3 750 per month
4 months Depreciation Expense = \$15 000	

SAM'S HOUSEWARES

Profit and Loss Statement for the period ending 30 June 2011

	\$	\$
Revenue		
Sales *1	966 000	
<i>less</i> Sales Returns *1	<u>1 000</u>	965 000
Less Cost of Goods Sold *2		
Cost of Sales *2		<u>688 100</u>
Gross Profit *2		276 900
-Stock Loss	5 000	
-Stock Write-down	<u>900</u>	<u>5900</u>
Adjusted Gross Profit *3		271 000
add Other Revenue		
+ Discount Revenue *3		<u>8 000</u>
		*3 279 000
less Expenses		
Interest	10 000	
Discount Expense	2 898	
Bad Debts	4 500	
Depreciation of Computer	2 200	
Depreciation of Display Counters	15 000	
Operating Expenses	<u>272 500</u>	<u>307 098</u>
Net Loss		\$28 098

7 marks



*1—1 mark for all correct

*2—1 mark for all correct

*3—1 mark for all correct

1 mark for adjusting salaries in Operating Expenses

1 mark for calculating Depreciation Expense

1 mark for three correct expenses

1 mark for listing other expenses

Question 5.7

Non-current Assets	\$	\$
Computers	22 000	
<i>less</i> Accumulated Depreciation of Computers	<u>11 200</u>	10 800
Display Stands	200 000	
<i>less</i> Accumulated Depreciation of Display Stands	<u>15 000</u>	<u>185 000</u>
Total Non-current Assets		\$195 800

2 marks

1 mark for each correct non-current asset amount and accumulated depreciation

Question 5.8

Owner's Equity	\$	\$
Capital—Sam		343 098
– Net Loss	28 098	
– Drawings	<u>38 000</u>	<u>66 098</u>
Total Owner's Equity		\$277 000

3 marks

1 mark for capital contribution

1 mark for including Net Loss and Drawings

1 mark for correct setting out

Practice task 6

Explanation

The preparation of a budget is for planning and decision-making. The business will also need to make budgeting decisions about:

- investing activities—the purchase or sale of non-current assets such as display shelves
- financing activities—changes in Owner's Equity (cash capital contribution and drawings) and the receipt or repayment of loans and mortgages.

2 marks

1 mark for each point

Practice task 7

- The possibility of an increase in bad debts.
- The lack of liquidity—if the business is not collecting debts it may find that it does not have cash for operating, financing and investing outflows.
- The business may have to borrow money through loans or bank overdrafts and incur interest payments, which will further negatively affect liquidity and profitability.

2 marks

1 mark for each problem

Practice task 8

Question 8.1

Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Discount expense	Debtors	Cost of Sales	Sales	GST	Sundries
June 5	Prepaid Sales Revenue	28	300						300

1 mark

1 mark for completely correct entry

Question 8.2

General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
June 5	Prepaid Sales Revenue	300			
	Sales Revenue		300		

2 marks

1 mark for each correct entry including, ledger account, \$ amount and debit and credit

Sales Journal

Date 2011	Debtor	Invoice No.	Cost of Sales	Sales	GST	Total Debtors
June 30	East FC	27	2000	2700	300	3 000

3 mark

1 mark for a completely correct entry