

COMMERCE PRESENTATIONS AND PUBLICATIONS



## **VCE ACCOUNTING 3/4**

**CPAP Practice Examination No 3 2019**

# **SUGGESTED SOLUTIONS & ADVICE**

**This exam is an updated version of the 2018 CPAP Exam 1 in accordance with the VCE Accounting Study Design for the accreditation period 2019 to 2023.**

**Question 1 – William’s Windows (4 marks)**

Prepare the **General Journal** entry on **1 January 2019** to establish the double-entry accounting system for **William’s Windows**.

**A narration is not required.**

**General Journal**

<b>Date</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
01/01	Accounts Payable		3 300
	Accounts Receivable	14 850	
	Bank		1 270
	GST Clearing		1 019
	Inventory	22 630	
	Loan – MNC Bank		16 800
	Van	27 500	
	Capital		42 591

**1 mark** – Bank and GST Clearing entries

**1 mark** – Accounts Receivable, Inventory and Van entries

**1 mark** – Accounts Payable and Loan – MNC Bank entries

**1 mark** – Capital

**Advice 1:** Even though this question is designed to be approachable (as the first question of the paper), it requires careful reading in order to avoid misinterpreting a key aspect. In particular, the choice of the *bank overdraft* description of the bank balance could easily be misunderstood. Even though there is a *bank overdraft balance*, there is no such account in the General Ledger, so it is important that students do not include the word *overdraft* in the General Journal.

**Advice 2:** Students are reminded that any General Journal entry requires the total of the debits to equal to the total of the credits. This is achieved through the creation of the Capital entry and calculation of the balancing amount.

**Question 2 – Costa’s Canoes (5 marks)**

- a. Explain why Costa’s Canoes would choose to use the Identified Cost assignment method instead of the First In, First Out cost assignment method.

**2 marks**

**Advice:** The addition of the Identified cost assignment method to the Study Design raises the potential for many comparison questions. Students need to be prepared to explain which method should be adopted by businesses selling different types of inventory items. Therefore, students should highlight the type of inventory being sold by a business and determine whether it is practical to physically mark each unit of inventory in order to determine its original cost or whether the business should just use the First In, First Out cost assignment method and not label each individual unit of inventory.

*Sample Answer:* As Costa’s Canoes sells canoes, the Identified Cost method may be more appropriate as Costa will be able to record the actual cost of each inventory item making the profit calculation more accurate. (1 mark)

Whereas, the First In, First Out method is based on an assumption that the cost prices are allocated in the order in which the items are purchased making the profit calculation not as accurate as the Identified Cost method. (1 mark)

- b. Record the transactions in the ‘Viking’ canoe inventory card.

**3 marks**

ITEM: ‘Viking’ canoe		Cost method: Identified Cost								
SUPPLIER: Sven’s		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/02	Balance							4	390	1 560
16/02	Inv.2040	8	420	3 360				4	390	1 560
								8	420	3 360
21/02	Inv.519				1	390	390	3	390	1 170
					1	420	420	7	420	2 940
27/02	Rec.784				1	420	420	3	390	1 170
								6	420	2 520

**1 mark** – per date entry

**Question 3 – Cliff’s Carpets (15 marks)**

- a. Explain how the deposit received from Q Hotels would be classified on the Balance Sheet of Cliff’s Carpets as at 28 February 2019.**

**3 marks**

**Advice:** A key skill of Unit 3 Outcome 1 is to distinguish between current and non-current assets and current and non-current liabilities. Students not only need to commit to memory the definitions of all of the accounting elements, but they need to apply key parts of each definition to the item they are explaining, rather than providing the entire definition. A key term in this question is the word ‘classified’. Unfortunately, a response of asset or liability or operating is not sufficient to be awarded full marks. Students need to be more specific and state that an item would be classified as a current asset or current liability or operating inflow and explain why by making reference to the appropriate part of the element definition.

*Sample Answer: The deposit received from Q Hotels would be classified as a Current Liability (1 mark) as it is a present obligation as a result of a past transaction (receiving the deposit) (1 mark) that is reasonably expected to be settled (delivering the 20 ‘Bowman’ carpets) within 12 months. (1 mark)*

- b. Record each of the source documents in the General Journal.**

**Narrations are not required.**

**10 marks****General Journal**

<b>Date</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
23/03	Inventory	20 400	
	GST Clearing	2 040	
	Accounts Payable - Adani		22 440
26/03	Accounts Payable - Adani	2 640	
	Inventory		2 400
	GST Clearing		240
28/03	Accounts Payable - Adani	19 800	
	Discount Revenue		990
	Bank		18 810
29/03	Sales		30 000
	GST Clearing		3 000
	Unearned Sales Revenue	4 000	
	Accounts Receivable – Q Hotels	29 000	
	Cost of Sales	10 000	
	Inventory		10 000

- 1 mark** – Inventory and GST Clearing entries on 23/03
- 1 mark** – Accounts Payable – Adani entry on 23/03
- 1 mark** – Accounts Payable – Adani entry on 26/03
- 1 mark** – Inventory and GST Clearing entries on 26/03
- 1 mark** – Accounts Payable – Adani entry on 28/03
- 1 mark** – Bank and Discount Revenue entries on 28/03
- 1 mark** – Sales and GST Clearing entries on 29/03
- 1 mark** – Unearned Sales Revenue and Accounts Receivable – Q Hotels entries on 29/03
- 1 mark** – Cost of Sales entry on 29/03
- 1 mark** – Inventory entry on 29/03

**Advice 1:** Students can sometimes become overwhelmed in the exam when being presented with a number of source documents. It is therefore important during reading time for students identify which business they are required to be recording for in the General Journal, and then identify where this name appears on the source documents that are provided. When the business name appears at the top of an invoice, it is a sales invoice. Alternatively, when the business name appears in the middle of an invoice, it is a purchase invoice. The same rule applies to credit notes.

**Advice 2:** It is useful to remember that, once writing time has commenced, students should use a highlighter to highlight where the business names appear and any reference to credit terms.

**c. Explain how a Bank Statement assists with Cliff's Carpets' internal control.**

**2 marks**

**Advice:** A key knowledge dot point for Unit 3 Outcome 1 is the reference to internal control procedures to safeguard resources against theft and fraud. [Which is the same dot point that appears in Unit 1 Outcome 1.] Students should recognise that the inclusion of bank statements in the documents for a business in the Study Design suggests that bank statements can be referred to as an appropriate method for internal control.

**Sample Answer:** *Cliff's Carpets could use the Bank Statement as a cross checking mechanism against the transactions recorded in the General Ledger. (1 mark)*

*The Bank Statement will assist the internal control of Cliff's Carpets as the amounts recorded in the Bank ledger must equal the amounts on the Statement to ensure that the transactions have been recorded correctly and any errors can be followed up with the Bank to ensure there has been no fraud or theft. (1 mark)*

**Question 4 – Tania’s Toys (11 marks)**

- a. Explain how the donation of inventory is an example of Tania’s Toys being an ethical trading business.**

**2 marks**

**Advice:** The Study Design introduces the concept of ethical considerations and outlines that business decisions made by the owner will not only be influenced by financial considerations, but also includes those which are social and environmental in nature. In addition, key knowledge dot points throughout Units 3 and 4 make reference to ethical considerations when making business decisions in relation to operating a trading business, recording and reporting accounting information and strategies used to improve business performance. It is recommended that any response to a question involving an ethical consideration begins with an attempt to demonstrate an understanding of ethical considerations (perhaps via a definition) before specifically addressing the question in relation to the possible potential impact on society and the environment.

*Sample Answer: Ethical considerations refer to the impact choices made by the business have on society and the environment. (1 mark)*

*By choosing to donate inventory to the local school, Tania’s Toys is having a positive impact on the local school community even though the cost price of the inventory will reduce profit. (1 mark)*

- b. Prepare the General Journal entry required on 30 April 2019 to record the result of the physical inventory count.**

**A narration is required.**

**3 marks****General Journal**

<b>Date</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
30/04	Inventory	115	
	Inventory Gain		115
	Inventory gain of 1 'BTS' toy doll set as per inventory count. (Memo 87)		

**1 mark** – per line entry

**1 mark** – narration

**Advice 1:** When required to record an entry in the General Journal, students are often required not to include a narration, so it can be easy forget one’s inclusion when it is prescribed in the question. However, students should recognise that the recording of an Inventory Gain is an example an entry that lends itself to the inclusion of a narration.

**Advice 2:** Students should always remember that (in relation to inventory gains) a narration requires the number of items, the type of inventory item, the reason for the narration and the Memo number. It is important to note that page 11 of the Study Design prescribes that inventory gains are to be determined by using the latest cost price recorded in the *In column* of the inventory card in accordance with the qualitative characteristic of *faithful representation*.

**c. Show the effect on the accounting equation as a result of the inventory valuation.**

**2 marks**

<b>Element</b>	<b>Increase / Decrease / No Effect</b>	<b>Amount</b>
Assets	Decrease	\$225
Liabilities	No Effect	Nil
Owner's Equity	Decrease	\$225

**1 mark** – per element

**Advice:** In VCE Accounting exam, students are usually asked to explain the effect of a transaction on the accounting equation. However, the 2017 VCAA June exam surprisingly required students to complete a table to show the effect of an *inventory write down* on the *Balance Sheet*. Students are reminded that when asked to explain the effect of a transaction on the Balance Sheet they are really required to address each of the components of the accounting equation. The use of the options in the headings should be used in preference to the use of arrows to indicate the effect. It is recommended that students practice *explaining the effect of a transaction* and *explaining the effect if a transaction was not recorded* on the accounting reports.

**d. Discuss the effect of applying the lower of cost and net realisable value rule on the liquidity of Tania's Toys.**

**4 marks**

**Advice:** It is important for responses to explain the potential positive and negative effects on the liquidity of the business as a result of applying the lower of cost and net realisable value rule and its impact on financial indicators.

**Sample Answer:** *When the lower of cost and net realisable value rule is applied, Tania assumes that, by reducing the selling price, the 3 'BTS' toy doll sets will be more likely to be sold more quickly. This will lead to an improvement in the inventory turnover as the inventory is being converted into sales and therefore cash faster, making it easier for the business to meet their short term debts as they fall due (2 marks).*

*However, the inventory write down of the 3 'BTS' toy doll sets will result in a lower value of Inventory being reported on the Balance Sheet. This will result in a lower Working Capital Ratio calculation which will be interpreted as having a negative impact on the liquidity of the business (2 marks).*

**Question 5 – Bernard’s Bookcases (5 marks)**

- a. Using product costing, calculate the cost price of each ‘Jakarta’ bookcase as it would be recorded in the inventory card on 17 May 2019.**

**1 mark**

$$\$450 + \$36 (8\%) = \$486$$

**Advice:** A common trend in inventory costing questions is to provide one item that is to be treated as a *product cost* and an additional item that is treated as a *period cost*. Words to look out for in the question when deciding whether an item is to be treated as a product cost are ‘each’ or ‘per unit’. Whereas, words that generally identify an item to be treated as a period cost are ‘annual’ or ‘per annum’ or where multiple inventory lines are delivered.

- b. Explain your treatment of the Freight cost in calculating the cost price of the ‘Jakarta’ bookcase.**

**2 marks**

**Sample Answer:** The Freight cost was treated as a period cost as, even though it was a cost incurred in getting the inventory into a location ready for sale, **(1 mark)** because there were multiple lines of inventory delivered, the cost is unable to be directly allocated to each bookcase. **(1 mark)**

- c. Assuming not all of the bookcases that were purchased on 17 May 2019 were sold by 31 May 2019, explain the effect on profit for the month ended 30 June 2019 if Bernard’s Bookcases used period costing instead of product costing.**

**2 marks**

**Advice:** In the context of questions such as this, where students are asked to explain the effect on profit, they are reminded that there will be an effect on the profit, either an increase or a decrease, and a corresponding reason why, such as an increase in expenses. But this question has been designed to be a discriminator given that the months chosen in the question ultimately determine what the correct response. Accordingly, those students entering the exam with a prepared response to product/period costing questions are unlikely to achieve full marks.

**Sample Answer:** If Bernard’s Bookcases used period costing instead of product costing, Cost of Goods Sold would be lower and Profit would be higher for the month ended 30 June 2019. **(1 mark)**

Under period costing, the Import Duties are reported in the Income Statement under the heading of Cost of Goods Sold in May 2019, regardless of the quantity of item sold. **(1 mark)**



**Question 6 – Freida’s Furniture (9 marks)**

a. Prepare the Cash Flow from Operating Activities extract of the Cash Flow Statement for the month ended 30 June 2019.

**5 marks****Freida’s Furniture****Cash Flow Statement (extract) for the month ended 30 June 2019**

	\$	\$
<b>Cash Flows from Operating Activities</b>		
Cash Sales	7 800	
GST Collected	780	
Receipts from Accounts Receivable	7 546	
GST Refund	1 089	
Prepaid Rent Expense	(24 000)	
Payments to Accounts Payable	(10 780)	
Purchases of Inventory	(5 500)	
Wages	(3 650)	
Cartage In	(900)	
Interest Paid	(125)	
GST Paid	(6 160)	
<b>Net Cash from Operations</b>		(33 900)

**1 mark** – Cash Sales and GST Collected

**1 mark** – Receipts from Accounts Receivable and GST Refund

**1 mark** – GST Paid

**1 mark** – any three other Operating outflows

**1 mark** – remaining three Operating outflows

**1 mark deducted** – no ‘Net Cash from Operations’ label or total

**Advice:** The three accounting reports included in the VCE Accounting course are the Income Statement, Cash Flow Statement and the Balance Sheet. As the exam is only allocated a total of 100 marks, it is unlikely that students will be required to prepare all three reports. Therefore, students need to understand that the term ‘extract’ refers to a snapshot or portion of a report. The extract will still require the use of appropriate headings and sub-headings, totals and sub-totals and a failure to include these in the extract is likely to prevent students from achieving full marks.

- b. Explain to Freida, with the use of an example, how the Cash Flow Statement reported a negative Net Cash from Operations even though the Income Statement reported a Net Profit for the month ended 30 June 2019.**

**3 marks**

**Advice:** The comparison between *cash* and *profit* is a common inclusion in any exam. With any question that compares cash and profit, students are encouraged to explain how the two 'results' are calculated. The 'results' in these types of questions include a Net Profit, Net Loss, Net Increase in Cash, Net Decrease in Cash, negative Net Cash from Operations and positive Net Cash from Operations. The use of *negative Net Cash from Operations* in this question acts as a constraint on the example students can use. Students will often associate *negative net cash* with the purchase of a non-current asset, loan repayments or drawings. However, the use of these items as reasons for the negative Net Cash from Operations is inappropriate in the context of the question.

**Sample Answer:** *The Cash Flow Statement reported a negative Net Cash from Operations as the cash outflows relating to the day-to-day trading activities of buying and selling inventory were greater than the cash inflows. (1 mark)*

*The Income Statement reported a Net Profit from the month ended 30 June 2019 as the revenues earned were greater than the expenses incurred. (1 mark)*

*A possible reason for this would have been due to the Prepaid Rent Expense payment decreasing Net Cash from Operations by more than the amount of Rent Expense incurred reported in the Income Statement. (1 mark)*

- c. Based on the Bank account ledger above, state the item that would be reported in the Cash Flows from Financing Activities section of the Cash Flow Statement for the month ended 30 June 2019.**

**1 mark**

Drawings (1 mark)

**Question 7 – Amy’s Air Conditioners (13 marks)**

- a. Explain what the carrying value of \$10 160 in the Balance Sheet as at 30 June 2019 represents.

**2 marks**

**Advice:** In examinations, students often err when demonstrating an understanding of the meaning and significance of accounting terminology, such as carrying value. In the context of the current question, students will typically err by explaining *how the carrying value is calculated* rather than *what the carrying value actually means*. For example, in the 2013 VCAA exam, 67% of students were awarded no marks for a similar question, with only 12% awarded full marks.

**Sample Answer:** The carrying value represents the future economic benefits yet to be consumed by the current owner (1 mark) plus the residual value being the future economic benefits that will be consumed by the next owner. (1 mark)

- b. Reconstruct the accounts provided in the Answer Booklet to calculate the budgeted cash purchase of Equipment for the year ended 30 June 2020.

**7 marks****Accumulated Depreciation - Equipment**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Disposal of Equipment	8 060		Balance	13 940
	Balance	9 800		Depreciation - Equipment	3 920
		17 860			17 860

**Disposal of Equipment**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Equipment	12 400		Accumulated Depreciation – Equipment	8 060
				Bank	1 750
				Loss on Disposal – Equipment	2 590
		12 400			12 400

**Equipment**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Balance	24 100		Disposal of Equipment	12 400
	Bank	16 500		Balance	28 200
		40 600			40 600

- 1 mark** – Opening Balance and Closing Balance entries in Accumulated Depreciation – Equipment account
- 1 mark** – Depreciation – Equipment entry in Accumulated Depreciation – Equipment account
- 1 mark** – Disposal of Equipment entry in Accumulated Depreciation – Equipment account and corresponding entry
- 1 mark** – Bank entry in Disposal of Equipment account
- 1 mark** – Loss on Disposal – Equipment in Disposal account
- 1 mark** – Equipment entry in Disposal of Equipment account and corresponding entry
- 1 mark** – Opening Balance and Closing Balance entries in Equipment account

**Advice:** The majority of the budgeting questions appearing in VCAA exams revolves around the reconstruction of Accounts Receivable (to calculate the budgeted Receipts from Accounts Receivable) and Inventory and Accounts Payable (to calculate the budgeted Payments to Accounts Payable). Even though the Study Design has removed the use of account reconstructions and introduced the use of modelling, the 2019 VCAA Sample exam required students to reconstruct the Accounts Receivable account. In addition, students have become very familiar with the format of ledgers required when an asset is sold or traded-in. This question combines the two skills of budgeting and reconstructing ledgers for budgeting purposes and the recording of disposing of a non-current asset. A similar question appeared in the 2016 VCAA exam with 40% of students being awarded zero marks out of a possible 7. The difference between the VCAA question and this question is the order in which the ledgers appear in the Answer Booklet. The ledgers in this question appear in the order in which they are required to be reconstructed.

**c. Explain why Amy’s Air Conditioners would have a budgeted Loss on Disposal – Equipment.**

**2 marks**

*Sample Answer: Amy’s Air Conditioners would have a budgeted Loss on Disposal – Equipment as it is estimated that when the Equipment is sold the proceeds from disposal is expected to be less than its carrying value. (1 mark)*

*This might be due to under depreciating the Equipment because of over estimating the useful and/or residual value or the Equipment was in poorer condition than expected when it was sold. (1 mark)*

**d. Explain how the preparation of a Budgeted Cash Flow Statement can assist Amy’s Air Conditioners with managing their future cash flows.**

**2 marks**

**Advice:** The performance of students in past exams reveals that they generally have difficulty explaining how *budgeting* assists with a business owner’s *planning and decision making*. Student responses can sometimes address the issue of planning, when the question requires them to address decision making, and vice versa. For example, the 2017 VCAA exam asked students how budgeting improves control within a business, with 64% of students being awarded zero marks out of a possible two, and only 11% being awarded full marks.

*Sample Answer: The preparation of a Budgeted Cash Flow Statement can assist Amy’s Air Conditioners with managing their future cash flows as the report provides an indicated limit of expenditure for the business for the year ended 30 June 2020. (1 mark)*

*The Budgeted Cash Flow Statement provides a benchmark against which actual performance can be compared, problems can be identified and corrective action taken in order to analyse and improve any areas of excessive spending. (1 mark)*

**Question 8 – Tayla’s Tambourines (12 marks)**

a. Prepare the General Journal entries to record the necessary balance day adjustments as at 30 June 2019.

Narrations are not required.

8 marks

**General Journal**

Date	Details	Debit	Credit
30/06	Depreciation Expense – Shelving	480	
	Accumulated Depreciation – Shelving		480
	Depreciation Expense – Van	1 890	
	Accumulated Depreciation - Van		1 890
	Rent Expense	5 600	
	Prepaid Rent Expense		5 600
	Advertising	900	
	Accrued Advertising		900

1 mark – per line entry

**Advice 1:** It is useful to note that balance day adjustment questions are a inclusion in VCE Accounting exams. Students need to appreciate that when an amount is required to be calculated, the entry will be allocated a total of two marks. Accordingly, if the calculated amount is incorrect, the student will still be awarded one mark if correct accounts are ‘debited’ and ‘credited’.

**Advice 2:** The depreciation entry requires students to apply their knowledge of how to use the *reducing balance method* to calculate depreciation for the reporting period. Past exams reveal that a common error is for students to see the depreciation percentage rate and apply that rate to the Van’s cost. However, that is the approach to use under the *straight-line method*. Students should always remember that, when calculating depreciation under the *reducing balance method*, the *rate* is applied to the Van’s carrying value, namely the cost less accumulate depreciation.

**b. Justify why the Van is depreciated using the reducing balance method yet Shelving is depreciated using the straight-line method.**

**4 marks**

**Advice:** Not only do students need to be able to calculate depreciation expense using both depreciation methods, they also need to be able to justify why certain depreciation methods are suited to certain types of assets. Unfortunately, students believe that whether or not an asset has moving parts is the determining factor in deciding which depreciation method is to be used. However, it is the expected revenue earning pattern of the asset that is to be used as the basis for justifying which depreciation method is to be chosen.

***Sample Answer:** The Van is likely to be more efficient in its earlier years of use and can be expected to generate more revenue in its earlier years. (1 mark) Therefore, the reducing balance method is used as it allocates more of the Van's cost as depreciation expense in its earliest years to match the revenue earning pattern of the Van to enable the most accurate calculation of profit. (1 mark)*

*However, as the Shelving is expected to contribute evenly to generating profit over its effective life, the straight line method of depreciation is appropriate (1 mark) as the same amount of depreciation expense would be matched against the revenue earned on a yearly basis. (1 mark)*

**Question 9 – Fernandez's Flags (6 marks)**

**Discuss whether the introduction of offering credit terms to customers and borrowing money from a bank may improve the profitability of Fernandez's Flags.**

**Advice:** It is important for responses to address the potential positive and negative impacts on profitability of offering credit to customers **and** borrowing money from a bank.

***Sample Answer:** The offering of credit to customers could have a positive impact on the profitability of Fernandez's Flags. The ability of customers to purchase on credit may act as an incentive for some customers to purchase inventory from Fernandez's Flags, or for existing customers to purchase additional inventory in larger quantities. However, the offering of credit to customers could also have a negative effect on the profitability of Fernandez's Flags due to the incurring of bad debts and the additional wages costs associated with the debt collection process. (3 marks)*

*The borrowing of money from a bank could also have a positive impact on the profitability of Fernandez's Flags. Should the borrowing of funds be used to purchase additional revenue generating non-current assets, Fernandez's Flags would expect to see an increase in Sales. In addition, a reliance on external debt rather than owner's capital may result in an increase in the Return on Owner's Investment indicator. However, just like offering credit to customers can have a negative effect on the profitability of Fernandez's Flags, so too can borrowing money from a bank. As outlined above, should the funds be used to purchase non-current assets, the business will also report depreciation expense. This depreciation expense, together with the associated interest expense that accompanies a loan, may decrease the profitability of Fernandez's Flags. (3 marks).*

**Question 10 – Shane’s Suitcases (4 marks)**

**Calculate the estimated Payments to Accounts Payable for September 2019.**

Month	Purchases (\$)	Credit Purchases	Credit Purchases (inc.GST)	July	August	September
July	40 000	30 000	33 000		25 080	6 600
August	60 000	45 000	49 500			37 620
September	80 000	60 000	66 000			
<b>Estimated Payments to Accounts Payable for September 2019</b>						44 220

**1 mark** – calculating Credit Purchases

**1 mark** – adding GST to Credit Purchases

**1 mark** – July’s Credit Purchases paid in September

**1 mark** – August’s Credit Purchases paid in August

**Question 11 – Henry’s Hammocks (6 marks)**

**Describe the variances and provide a possible reason for each variance.**

**Advice:** The number of marks allocated to this question acts as a guide as to how students should tailor their responses. Similarly to the 2018 VCAA November exam, where three variances were provided and students were required to describe the variances and provide a possible reason for each variance, students would be allocated one mark for stating if each of the variances is favourable or unfavourable and then an additional mark for providing a possible reason for each of the variances.

*Sample Answer: Depreciation had an unfavourable variance as more depreciation expense was incurred than that predicted by the budget. (1 mark) This could have been the result of an unexpected purchase of a non-current asset or the non-current asset being purchased earlier than anticipated. (1 mark)*

*Discount Revenue had a favourable variance as more discount revenue was earned than that predicted by the budget. (1 mark) This could have been the result of choosing to pay outstanding accounts payable balances within the credit terms offered. (1 mark)*

*Sales Returns had an unfavourable variance as more sales returned were reported than that predicted by the budget. (1 mark) This could have been the result of switching to an alternative supplier where customers deemed to inventory to be of inferior quality than expected. (1 mark)*

**Question 12 – Worsfold’s Windows (6 marks)**

- a. Calculate the amount of Interest received during the quarter ended 30 September 2019.

**1 mark**

\$600

- b. Complete the Accrued Interest Revenue account in the General Ledger as at 30 September 2019.

**3 marks****Accrued Interest Revenue**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
31/07	Bank	500	01/07	Balance	500
30/09	Balance	200	30/09	Interest Revenue	200
		700			700
			01/10	Balance	200

**1 mark** – Opening Balance and Bank entries**1 mark** – Interest Revenue entry**1 mark** – balancing the account

- c. Referring to the accrual basis assumption, explain why it is necessary to make a balance day adjustment on 30 September 2019 in relation to the Term Deposit.

**2 marks**

**Advice:** Students should appreciate that questions relating to *balance day adjustments* are often generic in nature and lend themselves more to generic, rote learned, responses. For example, students are often asked to explain why balance day adjustments are necessary and they can easily link their response to either a qualitative characteristic or accounting assumption. However, the current question requires careful reading, as it specifically relates to a *Term Deposit*. In order to achieve full marks, students are required to specifically link their response to the interest earned on the Term Deposit.

**Sample Answer:** *The Accrual Basis assumption states that expenses incurred for a period are subtracted from revenue earned in that same period in order to report an accurate profit. (1 mark)*

*Therefore, the purpose of recording a balance day adjustment in relation to the Term Deposit is to ensure that the balance of Interest Revenue is adjusted to reflect the interest revenue earned not just the interest revenue received during the period. (1 mark)*



**Question 13 – Hamilton’s Hardware (4 marks)**

**a. Explain how the relationship between the Gross Profit Margin and the Inventory Turnover.**

**2 marks**

*Sample Answer: A decrease in the Gross Profit Margin indicates a decrease in the mark-up percentage most likely due to Hamilton’s Hardware decreasing their selling price. (1 mark)*

*The decrease in the selling price has resulted in Hamilton’s Hardware selling more units of inventory which was reflected in the faster Inventory Turnover. (1 mark)*

**b. State one strategy Hamilton could introduce to improve the Inventory Turnover without effecting the Gross Profit Margin.**

**1 mark**

**Advice:** These type of ‘state’ questions have been included as a ‘recall’ exercise for future exams. Students are required to be able to provide strategies to improve business performance. During reading time, students are encouraged to identify that a constraint exists in this question. Many students would be able to provide a strategy to improve a business’ inventory turnover. However, they need to be mindful that the strategy they provide does not affect the Gross Profit Margin.

*Sample Answer:*

- *employ strategies to increase sales, like advertising or changing the inventory mix*
- *decreasing the level of inventory on hand by ordering less, ordering smaller amounts more frequently, replacing slow moving inventory lines*
- *relocating inventory within the store to highlight particular goods*

**c. State one non-financial indicator Hamilton could use to assess the performance of his business.**

**1 mark**

**Advice:** Apart from non-financial indicators warranting their own ‘dot point’ in the Study Design, this question is included as a means of testing student’s time management skills under exam conditions. This question should be familiar to all students, however, given the location of the question, many students will not attempt it as they prefer to attempt exam questions in the order they are presented.

*Sample Answer:*

- *customer satisfaction surveys / number of repeat customers*
- *number of sales returns / quality of products*
- *number of hits on business website*

**100 marks**

**END OF SUGGESTED SOLUTIONS**