



GENERAL COMMENTS

The June examination was comprised of two questions, with multiple parts to each question. The questions and subsequent parts increased in difficulty, and this format will continue to be the case for future exams.

Each question dealt with one scenario and was worth 45 marks. To enable each question to be adequately broken into parts, each scenario dealt with differing length time periods. Students needed to read the question carefully to ensure they understood the period of time being dealt with. Often students did not adequately read the dates provided, leading them to miscalculate figures such as depreciation, or leave out information.

The balance between theory and practice was again approximately 40:60, and this is expected to continue. This balance covers the whole examination, and is not necessarily the case for each scenario.

It was noted in the June 2004 Assessment Report that students should use the Answer Book as a guide to how each question should be answered. This still applies. Further to that, students must read the questions carefully. Students sometimes seemed to ignore the instruction to draw from the material provided. Too often students provided 'rote-learned' answers that weren't appropriate. This was particularly true for 'definition' style questions, and for questions where a limitation was provided; for example, 'apart from identifying stock loss/gain, state the benefits of using Stock Cards'. In this type of question, students often still provided the response that Stock Cards assist in calculating stock loss/gain.

Previous Assessment Reports and Advice to Teachers (Clarification of Methods) have highlighted areas where students have performed poorly in the past. In this examination it was pleasing to see the correct use of terminology in journals and ledger accounts (Profit & Loss **Summary**) and document numbers in Stock Cards. However, there were still a number of areas that students need to improve upon (for example, **Cost of Sales** rather than **Cost of Goods Sold**). These errors will still result in lost marks in the examination.

It is important that teachers and students use past examinations **and** Assessment Reports when preparing for the examination. The purpose of the Assessment Report is to give teachers and students an insight into how the assessors allocate marks and any areas of concern. Issues that continue to be of concern are highlighted and it is important that teachers and students are aware of this.

SPECIFIC INFORMATION

Question 1 – Mike's Motorbike City

1.1.1 Complete the opening journal entries required to establish the new double entry recording system at 1 January 2005.

Marks	0	1	2	3	4	Average
%	15	14	29	32	10	2.2

GENERAL JOURNAL

GJ1

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$
1 Jan	Computer Equipment		2 500	
	Motorbike		16 000	
	Capital			18 500

Cash Receipts Journal

CRJ1

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries
1 Jan	Capital			40 000					40 000

Journals

This question required students to prepare an opening journal entry for a new business. The Cash Receipts Journal was provided, as it was expected that students would record the cash contribution of \$40 000 in the CRJ; however, many students recorded this item in the General Journal. This treatment was also accepted.

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Many students appeared confused by the presence of the Cash Receipts Journal and recorded the cash contribution in both this and the General Journal. Students who adopted this approach were penalised.

A second issue for students was the valuation of the Computer Equipment. The correct valuation was \$2500, as this was the value of the asset to the business.

The inclusion of the \$8000 in the owner's personal bank account was considered an alien item and students were penalised a mark if they included it. The Capital figure was consequential to the treatment of the Computer Equipment and the cash contribution.

1.1.2 Identify one accounting principle that supports your treatment of Mark's personal bank account. Justify your answer.

Marks	0	1	2	Average
%	18	11	71	1.6

Principle Accounting Entity
Justification The business must be a separate accounting entity from its owner and other entities or separate records from the business.

Accounting Principle

Generally this question was well answered. Students were able to accurately identify the accounting principle, and the justification usually followed on.

1.1.3 Identify one qualitative characteristic that supports the value at which you recorded the computer. Explain your answer.

Marks	0	1	2	3	Average
%	33	23	28	16	1.3

Characteristic Relevance
Explanation The true cost of the computer will have importance/significance to the intended users for decision making or reference needs to be made to the current value.

Qualitative Characteristic

The qualitative characteristic identified by students was consequential to the valuation used in Question 1.1.1. While 'relevance' was the intended answer, 'reliability' was accepted where students had valued the asset at \$4000. The explanation needed to match the characteristic given.

While many students were able to talk about current value or the significance of the value, most students did not use both points and very few mentioned decision making.

It has been accepted practice for a number of years that students are expected to give two points where a question is worth two marks.

1.2.1 Complete the Stock Card for the TriStar model for January 2005.

Marks	0	1	2	3	4	5	6	Average
%	6	3	4	8	19	36	25	4.5

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Stock Card

Model: TriStar

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
10 Jan	Inv. 478	10	2 500	25 000				10	2 500	25 000
14 Jan	Inv. 1-8				8	2 500	20 000	2	2 500	5 000
21 Jan	Inv. 595	15	2 800	42 000				2 15	2 500 2 800	47 000
23 Jan	Inv. 9-12				2 2	2 500 2 800	10 600	13	2 800	36 400
26 Jan	Rec. 2-3				2	2 800	5 600	11	2 800	30 800
31 Jan	Memo 23				1	2 800	2 800	10	2 800	28 000

Stock Card

As mentioned in previous Assessment Reports, students are becoming more adept at these types of questions. Most students used document numbers when recording the details of a transaction and very few students used the selling price of stock when recording sales. However, these errors did still occur and each type of error attracted a one mark deduction. Students also lost a mark for including the purchase of the second type of stock, which showed an inability to accurately read the information.

The stock loss should also have been recorded in the Stock Card; many students failed to do this.

1.2.2 Prepare the General Journal entry required to record any stock loss or stock gain.

Marks	0	1	2	Average
%	21	12	67	1.5

GENERAL JOURNAL

GJ1

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$
31 Jan	Stock Loss		2 800	
	Stock/Stock Control			2 800

General Journal

This question was generally well answered. Most students used the correct terminology and were able to calculate the correct value of the stock loss.

The amount was consequential according to whether or not students included the second stock item in Question 1.2.1.

1.2.3 Apart from identifying stock losses or gains, state two benefits of using a Stock Card.

Marks	0	1	2	Average
%	37	40	23	0.9

First Benefit Assists in identifying slow/fast moving stock. Tracks individual stock items.
Second Benefit Assists in enabling automatic reordering, or improves reordering. Keeps track of the cost price of items sold. Sets minimum and maximum amounts. Separates duties.

Benefits of Stock Cards

This type of question has appeared in exams before and students should be reminded to follow the restriction given in the question. Students who repeated the restriction given did not attract full marks.

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1.2.4 Explain why the stock on hand of \$38 000 at 31 January 2005 should not be treated as an expense for January.

Marks	0	1	2	Average
%	45	28	26	0.9

Explanation Stock on hand has not yet been consumed/not yet caused a decrease in owner's equity – it still represents a future economic benefit to the business, controlled by the entity as a result of a past transaction.

Stock as an asset

Many answers did not score well on this question as they often provided a rote-learned definition of assets or expenses. The question required students to explain why stock is an asset and not an expense; therefore, students needed to provide a response that drew on aspects of both items.

1.2.5 Show how the

- Debtors ledger account
- Stock ledger account

would appear after the information from 1.2 above has been recorded. Balance each account and show appropriate posting references.

Marks	0	1	2	3	4	5	6	7	8	9	10	Average
%	21	5	5	6	6	6	6	8	11	14	12	5.3

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DEBTORS

Date 2005	Particulars	Post Ref.	\$	Date 2005	Particulars	Post Ref.	\$
31 Jan	Sales	SJ 1	48 000	31 Jan	Bank/Discount Expense	CRJ 1	26 000
					Balance		22 000
			48 000				48 000

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STOCK

Date 2005	Particulars	Post Ref.	\$	Date 2005	Particulars	Post Ref.	\$
31 Jan	Creditor	PJ 1	77 000	31 Jan	Cost of Sales	SJ 1	30 600
					Cost of Sales	CRJ 1	5 600
					Stock Loss	GJ1	2 800
					Balance		38 000
			77 000				77 000

General Ledgers

This question was handled reasonably well by students; however, a lack of attention to detail saw many good responses not gain full marks. The main areas where students lost marks were incorrect calculation of the discount expense amount, incorrect title (Cost of Goods Sold), incorrect posting reference (Memo 28) and recording individual entries for the purchases.

1.2.6 State what is meant by the terms '2/14' and 'n/30' as shown on the invoices on page 3.

Marks	0	1	Average
%	35	65	0.7

2/14 A two per cent discount is given if the account is paid within 14 days.

n/30 Payment is required within 30 days of purchase.

Credit terms

As this question was only worth one mark, students were only required to define one of the two terms correctly to be awarded the mark.

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Answers needed to state that the discount was two per cent. Answers that just referred to 'n/30' as the credit terms were not sufficient.

1.3.1 Enter each adjustment into the worksheet provided.

Marks	0	1	2	3	4	5	6	7	Average
%	13	10	9	10	11	14	14	19	4.0

MIKE'S MOTORBIKE CITY WORKSHEET (extract) AS AT 30 JUNE 2005

ACCOUNT NUMBER	ACCOUNT	Trial Balance		Adjustments	
		DR \$	CR \$	DR \$	CR \$
101	Bank	19 300			
102	Debtors	41 200			
103	Stock	81 000			
104	Prepaid Rent	8 400			7 200
151	Display Motorbike	16 000			
153	Computer Equipment	2 500			
201	Creditors		67 300		
251	Loan (due 30 June 2008)		20 000		
301	Capital		58 500		
302	Drawings	12 000		500	
401	Sales		280 000		
402	Discount Revenue		200		
501	Cost of Sales	191 000			
502	Administration Expenses	7 000			500
503	Advertising	6 200			
504	Discount Expense	2 600			
505	Stock Loss	2 800			
506	Wages	36 000		900	
	Depreciation – motorbike			1 600	
	Accumulated depreciation – motorbike				1 600
	Depreciation – computer equipment			250	
	Accumulated depreciation – computer equipment				250
	Rent expense			7 200	
	Accrued wages				900
	Totals	426 000	426 000	10 450	10 450

Worksheet

This question required students to enter four balance day adjustments and one correcting entry onto a worksheet. Owing to the marks allocated for the question and the number of calculations required, only one of the two depreciation calculations needed to be correct.

Common errors included the calculation of depreciation for 12 months (rather than six months) and incorrect calculation of the rent expense.

The physical stocktake figure in the additional information section did not require an adjustment. It did not prove to be a distraction as most students ignored this item.

1.3.2 Explain the purpose of preparing balance day adjustments.

Marks	0	1	2	Average
%	70	18	12	0.5



Explanation Balance day adjustments are prepared and recorded on the last day to calculate accurate/relevant profit for the reporting period **or** so that revenue earned is matched against expenses incurred to determine profit.

Balance day adjustments

This question was poorly answered, despite the fact that similar questions have appeared on many past exam papers.

Many responses focused on fixing mistakes. This indicated that students either did not read the question properly or confused correcting entries and balance day adjustments.

1.3.3 Explain why discount received from Creditors is treated as a revenue item in the Statement of Financial Performance.

Marks	0	1	2	Average
%	67	26	6	0.4

Explanation Discount revenue is a saving in outflows of future economic benefit in the form of reductions in liabilities (or creditors) that results in an increase in owner's equity during the reporting period.

Discount revenue

This question was another area where students often provided a rote-learned definition. The question specifically referred to discount revenue but students persisted in stating that this was 'an inflow of economic benefits' and/or 'resulting in an increase in assets'. Students must learn to adapt their learned definitions to meet the requirements of the question.

1.3.4 Prepare the General Journal entry required to close the Revenue accounts at 30 June 2005.

Marks	0	1	2	Average
%	40	18	42	1.1

GENERAL JOURNAL			GJ2	
Date 2005	Particulars	Post Ref.	Debit \$	Credit \$
30 Jun	Sales		280 000	
	Discount Revenue		200	
	Profit & Loss Summary			280 200

General Journal

Generally this question was well answered. Students used the correct terminology, which was pleasing as this had been an area of concern in recent years.

Question 2 – Port's Book Supplies

2.1.1 Calculate the depreciation expense for Fixtures and Fittings for the year ended 30 June 2005.

Marks	0	1	Average
%	39	61	0.6

$(\$12\,000 - \$2000) / 10 \text{ years}$

Depreciation Amount = \$1000

Depreciation

This question involved a relatively simple calculation. Students who included the existing accumulated depreciation in their response did not gain the mark allocated.

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2.1.2 Explain why the straight line method of depreciation may be an appropriate method of depreciation for Fixtures and Fittings, but not for the Delivery Vehicle.

Marks	0	1	2	Average
%	39	22	39	1.1

Explanation Fixtures and Fittings contribute equally to revenue earning ability in each reporting period. The Delivery Van would contribute more to revenue earning ability when it is newer than when it is older.

Methods of depreciation

This was a difficult question. Students needed to discuss the pattern of revenue earning for each asset and how each method of depreciation allocates the expense. Most students discussed only one asset or only one depreciation method.

2.1.3 Calculate the depreciation expense for the Delivery Vehicle for the year ended 30 June 2005.

Marks	0	1	2	Average
%	29	32	39	1.2

$(\$30\,000 - \$6\,000) * 20\%$

Depreciation Amount = \$4800

Depreciation

This question required a calculation of reducing balance depreciation for the second year of the asset's life. After calculating the correct amount, many students went further and added the current year's amount to the existing accumulated depreciation. A second common error was to deduct the residual value of the asset prior to the calculation of the expense. This demonstrated a weakness in students' understanding of the reducing balance depreciation method.

2.1.4 Show the effect on the amount of depreciation expense reported for the years ended 30 June 2004 and 30 June 2005 if the straight line method of depreciation had been used for the Delivery Vehicle instead of the reducing balance method.

Marks	0	1	2	Average
%	46	15	39	1.0

Item	Increase/ Decrease	Amount \$
Depreciation Expense – 2004	Decrease	2 000
Depreciation Expense – 2005	Decrease	800

Effect on profit

This question required students to compare depreciation for the asset using both the straight line and the reducing balance methods. Student responses were generally good; however, some students did not read the dates correctly and stated the effect for the years 2005 and 2006.

Responses were also consequential to the amount calculated in Question 2.1.3.

2.2.1 Prepare the General Journal entries required to record the new valuation of the Buildings.

Marks	0	1	2	3	4	Average
%	29	13	22	22	14	1.9

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GENERAL JOURNAL

GJ7

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$
30 Jun	Accumulated depreciation – Buildings		20 000	
	Buildings			20 000
	Buildings		160 000	
	Asset revaluation reserve			160 000
	(Building independently valued at 30 June 2005 – Memo No. 28)			

General Journal

This topic has been examined each year, with varying results. The most common error this year was students not treating the accumulated depreciation prior to revaluing the asset.

This question also required a narration for the General Journal entry. When writing a narration, students must include the document number.

2.2.2 Show the effect of the revaluation on the Statement of Financial Position.

Marks	0	1	2	3	Average
%	14	7	11	69	2.4

Item	Increase/ Decrease/No Change	Amount \$
Assets	Increase	160 000
Liabilities	No change	-
Owner's Equity	Increase	160 000

Effect on report

This question was very well answered. Regardless of the response provided in Question 2.2.1, students were able to accurately state the effect on the report.

2.3.1 Identify an accounting principle that supports the Computer Equipment being recorded at \$3000. Justify your answer.

Marks	0	1	2	Average
%	21	17	62	1.5

Principle Historical Cost
Justification Transactions are recorded at original values or Documentation is available to support the value.

Principle

This question was handled very well. Most students correctly identified the principle, and their justification followed logically. Students generally used very succinct justifications and this proved an appropriate way of answering the question.

2.3.2 Explain what the \$1000 represents.

Marks	0	1	2	Average
%	45	43	12	0.7



Explanation It represents a combination of future depreciation charges against the asset, and any residual value **or** Carrying Value **or** the unexpired cost, written down value, unallocated cost, carrying cost, residual value – that part of the asset that is yet to be matched against revenue.

Valuation

Students were asked to explain what a particular figure represented. The correct response was Carrying Value. Many students were able to identify the figure as Carrying Value; however, they were unable to go further and state what Carrying Value represents. This was another example of students not identifying two points for a two mark question.

Weaker responses identified the amount as the current value of the asset. Students need to be reminded that the charging of depreciation is not a valuation tool.

2.4 Prepare the journal entries required to record

- the disposal of the existing computer
- the purchase of the new computer.

Marks	0	1	2	3	4	5	6	7	8	Average
%	24	13	12	10	7	7	9	12	6	3.3

GENERAL JOURNAL

GJ6

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$
1 Jul	Carrying Value – Computer Equipment.		3 000	
	Computer Equipment.			3 000
	Accumulated depreciation – Computer Equipment		2 000	
	Carrying Value – Computer Equipment.			2 000
	Computer Equipment		5 000	
	Creditor – Computer Works			5 000

Cash Receipts Journal

CRJ1

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries
1 Jul	Proceeds from sale		42	300					300

Cash Payments Journal

CPJ3

Date 2005	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Wages	Stock	Sundries
1 Jul	Creditor – Computer Works		237	1 000					1 000

Journals

This was a difficult question which involved the sale and purchase of a non-current asset. While many students were able to record the disposal of the non-current asset, as in Question 2.1.1 they often did not treat the accumulated depreciation correctly. Account titles were also an issue, as many students did not use the correct title for the ledger accounts and/or changed titles throughout the question.

Many students also treated the cash received from the sale and/or the cash deposit through the General Journal. Students need to be aware that when they are provided with cash journals they are expected to use them.

2.5.1 Prepare a Classified Statement of Cash Flows for the year ended 30 June 2006.

Marks	0	1	2	3	4	5	6	7	Average
%	13	5	6	7	12	18	21	19	4.5



**PORT'S BOOK SUPPLIES
STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2006**

	\$	\$
Cash Flow from Operating Activities		
Cash Sales	240 800	
Interest	600	
Debtors	31 200	272 600
Vehicle Expenses	(3 200)	
Creditors	(160 000)	
Wages	(105 000)	
Advertising	(9 600)	
Administration Expenses	(12 300)	
Accrued Wages	(1 400)	
Prepaid Insurance	(1 200)	(292 700)
NET CASH FROM OPERATING ACTIVITIES		(20 100)
Cash Flow from Investing Activities		
Proceeds – Disposal of Computer	300	
Deposit – Computer Equipment	(1 000)	
NET CASH FROM INVESTING ACTIVITIES		(700)
Cash Flow from Financing Activities		
Capital	14 000	
Drawings	(9 200)	
Loan Repayments	(44 000)	
NET CASH FROM FINANCING ACTIVITIES		(39 200)
NET INCREASE/(DECREASE) IN CASH		(60 000)
Cash at Bank (01/07/2005)		31 000
Cash at Bank (30/06/2006)		(29 000)

Statement of Cash Flows

Given the information provided, this should have been a very straightforward question. Students were required to classify the information given and then calculate the cash at bank at the start of the reporting period.

In questions such as this, students must ensure they use all the information given. Many students did not gain full marks as they did not include all the items given. Many students also did not read the question carefully enough to correctly identify the cash at bank at end and the net increase/decrease in cash. These items were provided and needed to be included for students to gain full marks.

2.5.2 State what is meant by the term 'Investing Activities' in the Statement of Cash Flows. Give one example of an Investing Activity inflow.

Marks	0	1	2	Average
%	46	33	21	0.8

Meaning Cash flows resulting from the purchase or sale of non-current assets.

Example Proceeds from the sale of the Computer Equipment (or any other non-current asset named).

Investing Activities

Using their response to Question 2.5.1, students should have found this a relatively straightforward question. The term 'cash' needed to be used in the meaning section and an inflow needed to be used as an example.

2005 Assessment Report



While it was anticipated that students would use the example from Question 2.5.1, assessors accepted any non-current asset.

2.5.3 Explain, giving two examples from the Statement of Cash Flows, how the business can record a net profit of \$85 000, yet, at the same time, have the bank balance fall by \$60 000.

Marks	0	1	2	3	4	Average
%	39	18	20	16	7	1.4

Explanation Profit equals revenue less expenses. This is not necessarily the same as cash received less cash paid or cash receipts less cash payments.

Examples Drawings or loan repayments or prepaid insurance or accrued wages or deposit on computer.

Difference between cash and profit

This type of question continues to be poorly answered. The distinction between cash and profit is an important component of the course and students need to be clear on the distinction and how items may impact upon one and not the other.

Students were required to choose examples from the scenario given. This was not always done, and students must be aware that if the question requires this type of response, answers from outside the given scenario will not be rewarded.

2.6.1 Calculate the amount of Wages Expense for the year ended 30 June 2006.

Marks	0	1	2	Average
%	47	26	27	0.8

$\$105\,000 + \$1\,000 = \$106\,000.$

Amount = \$106 000

Wages

This was a straightforward calculation providing students read the question carefully. Many students included the previous reporting period amount of \$1400 in their calculations. This was disappointing given that this topic has been examined in each of the past two June examinations.

2.6.2 Show how the payment of wages of \$2200 (Cheque 446) on 5 July 2006 would be recorded in the Cash Payments Journal.

Marks	0	1	2	Average
%	36	43	21	0.9

Cash Payments Journal

CPJ6

Date 2006	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Wages	Stock	Sundries
5 July	Accrued Wages		446	2 200					1 000
	Wages						1 200		

Journal

As with Question 2.6.1, this question was poorly handled by students. It has been noted in past Assessment Reports that this topic was of concern to assessors. Students often failed to realise that the payment is debited to two General Ledger accounts and that the Journal entry must reflect this. Many students did not separate the two items in the Journal and therefore did not gain full marks.

2.7 State two factors which the accountant should have considered when deciding to use Point of Sale or Point of Cash Transfer.

Marks	0	1	2	Average
%	40	38	22	0.9

2005 Assessment Report



First Factor What percentage/volume of sales are cash and what percentage are on credit?

Second Factor If the business offers credit terms to its customers **or** the size of the business **or** if the business uses accrual accounting **or** which method provides the more accurate measure of revenue/net profit **or** skills of the owner/ease of use/past history of bad debts.

Revenue recognition

Most students were able to provide the first factor, with the amount/volume of credit sales the most common response. Students found it difficult to give a second factor.