2023 VCE Accounting external assessment report

General comments

The 2023 VCE Accounting examination included eight questions consisting of multiple parts.

Most students were able to complete the examination within the two hours allocated. However, some students did not attempt every question. It is important that students manage time effectively within the examination and thereby optimise chances of success with all questions.

Effective use of reading time is a skill that should be practised throughout the year. It is important that students ensure they read each question thoroughly and highlight the key parts of each question before attempting a response. Many students appeared to have misread questions, resulting in inaccurate responses that did not directly address the question being asked.

The 2023 examination included two discussion questions; both were generally handled well by students. Question 7c. had 25% of students scoring at least five marks. This demonstrated that these students were able to provide a detailed discussion of the liquidity of the business, including examples justifying whether or not the owner should be concerned.

Question 8b. required students to discuss ethical and financial considerations regarding the purchase of a vehicle. Almost half of the students achieved at least five marks, indicating that most students were able to develop a detailed discussion of both vehicle options, including financial and ethical considerations, and to make a recommendation.

Question 2a. required students to record the General Journal entry to commence a double entry accounting system; many students appeared to find this difficult. Common errors included recording bank overdraft as an asset, missing the computer from the accumulated depreciation of computer account or failing to record the capital account.

This question involved a basic accounting entry with which all students should be familiar.

Question 5c. took a different approach to the traditional style of a cash-versus-profit question. This question was not generally well handled, with more than 25% of students not scoring any marks. This question assessed an area of the course that has appeared regularly in previous examinations. Students must be prepared for questions to be asked in different styles from previous examination papers. Teachers, therefore, must ensure students are exposed to a broad array of question types and styles throughout the year.

Question 6a. was generally well handled by students.

Students need to be aware of the importance of task words. When asked to prepare a general ledger, the task requires the students to record entries into the general ledger. When a question asks students to complete the general ledger, they are required to balance and close appropriate ledger accounts.

Question 8c required students to identify the carrying value from a Balance Sheet extract and explain what it represents. Only 18% of students achieved full marks for this question, and most students were unable to identify the carrying value.

Terminology is a significant component of the VCE Accounting study design. It should be ensured that students gain and are able to apply an understanding of all terminology covered within the course, not just the regularly used terms.

General Ledger questions were tested throughout the examination, with students being required to post to, balance and close ledger accounts. Most students handled these questions well and were able to score marks for the ledger accounts. More practice is, however, required to improve performance with these questions. Common errors resulting in loss of marks for this question included the use of incorrect cross-references, reversal of entries, and failure to record all entries stipulated as required within the question.

Modelling questions now appear frequently in VCE Accounting examinations. These questions have developed in complexity since their introduction with the current study design. Students are generally achieving high scores in this area of the study.

Specific information

Note: This report provides sample answers, or an indication of what answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

The statistics in this report may be subject to rounding, resulting in a total of more or less than 100 per cent.

Question 1a.

Mark	0	1	2	3	4	5	Average
%	23	9	10	13	13	32	2.8

General Journal

Date 2023	**Details**	**Debit $**	**Credit $**
Jan 23	Sales Returns	440	
	GST Clearing	44	
	Accounts Receivable		484
	Inventory	220	
	Cost of Sales		220
Jan 31	Accounts Payable	253	
	Inventory		230
	GST Clearing		23

This question required students to identify the nature of two transactions from an inventory card.

Students were awarded three marks for the sales return transaction, with the Sales Returns and GST Clearing entries awarded one mark.

Students were awarded two marks for the purchase return transaction, with the Inventory and GST Clearing awarded one mark.

Common errors included:

- recording the Sales Return transaction as a purchase return
- incorrect reference to Sales Returns as Sales
- reversal of Inventory and Cost of Sales accounts
- recording purchase return as an inventory gain.

Recording of general journal entries from source documents requires a detailed understanding of a variety of source documents. All source documents should be covered regularly throughout the course.

Question 1b.

Mark	0	1	2	Average
%	15	18	67	1.6

Students were required to describe a strategy that FootsRus could use to improve its inventory turnover. As FootsRus had experienced a slowing inventory over the past year, students were required to describe a strategy to make the inventory turnover faster.

There were several acceptable responses, including:

- reducing inventory levels by removing slow-moving obsolete lines.
- reducing inventory while maintaining sales to reduce the number of days it takes to sell inventory.
- using just in time ordering to ensure that the business maintains low inventory levels.
- increasing advertising or reducing selling prices to increase sales in order to sell inventory faster.

Common errors included:

- increasing the range of inventory on hand to increase sales, as this would result in slower inventory turnover as the business increased inventory on hand.
- offering discounts to accounts receivable, as, while this will result in faster collection of accounts receivable, it will have no impact on inventory turnover. Students need to be careful not to confuse discounts as part of credit terms and reducing the selling price of inventory.

Question 2a.

Mark	0	1	2	3	Average
%	36	17	22	25	1.4

General Journal

Date 2023	**Details**	**Debit $**	**Credit $**
Jan 1	Accounts Receivable	17 100	
	Inventory	59 000	
	Prepaid Advertising	5 600	
	Computer System	25 000	
	Bank		4 750
	Accounts Payable		26 500
	Accumulated Depreciation of Computer		9 650
	Allowance for Doubtful Debts		500
	GST Clearing		1 500
	Loan		13 000
	Capital		50 800

Students were provided with a list of assets and liabilities and were required to prepare the General Journal entry to establish the double entry system of FriendsEd. Students found this question difficult, with over 30% of students not scoring any marks. Most common errors appeared to be the result of a lack of attention to detail, including incorrect titles or failure to read the question accurately. Students should be prepared for a range of question types generally, including a range of General Journal questions.

One mark was awarded for each of:

- assets
- liabilities, including allowance for doubtful debts and accumulated depreciation of computer
- capital

Common errors included:

- recording bank overdraft as a debit entry
- incorrect titles – the omission of the word ‘computer’ from ‘Accumulated Depreciation of Computer’
- missing capital entry.

Question 2b.

Mark	0	1	2	Average
%	56	28	16	0.59

This question required students to explain one reason for using a double entry system.

Two marks were awarded for an accurate explanation of why a business would use a double entry system.

Higher-scoring responses referred to a double entry system using the General Journal and General Ledger to prepare a Trial Balance being used to prepare accounting reports for decision making purposes.

Lower-scoring responses focused on the accuracy of recording and explained how the double entry system works rather than why a business would use a double entry system.

This was generally poorly handled by students, indicating that while many students were able to use the double entry accounting system, many did not have a clear understanding of the advantages of its use.

Question 2c.

Mark	0	1	2	3	4	Average
%	6	10	19	40	25	2.7

While students may be required to prepare a complete Balance Sheet, they should also be prepared to complete an extract. This question was generally well handled, although some students did not achieve full marks due to insufficient attention to detail. The question book clearly identified that GST Clearing and Bank Overdraft were credit balances and that there was no requirement to adjust totals. When attempting this type of question, students should tick off or highlight the accounts in their question book to avoid missing accounts in the report.

FriendsEd

Balance Sheet (extract) as at 1 January 2023

Current Assets	$	$
Accounts Receivable	17 100	
Less Allowance for Doubtful Debts	(500)	16 600
Inventory		59 000
Prepaid Advertising		5 600
		81 200

One mark each was awarded for each of:

- Accounts Receivable, Allowance for Doubtful Debts and a total
- Inventory
- Prepaid Advertising
- including a total

Common errors included:

- not including a total of Net Accounts Receivable
- including the Bank Overdraft as a current asset
- including GST Clearing as a current asset
- not including a total of current assets

Question 2d.

Mark	0	1	2	Average
%	56	28	16	1.1

When recording the contribution of non-current assets to a business, students must be prepared for questions, including valuation of the asset. In this question, students were required to explain why the business would use the fair value when recording the vehicle.

Higher-scoring students referred to the entity assumption. This required the business to recognise a change in ownership from the owner to the business, resulting in the business being required to use the market valuation at the time that the vehicle was contributed to the business.

As this question did not require an accounting assumption, it was possible to achieve full marks without referring to the entity assumption, although students are encouraged to use accounting terminology throughout the exam, because this will support their response.

Other acceptable responses included referring to the fair value as being easy to identify through comparing the vehicle to other similar vehicles online.

Overall, students performed poorly in this question. Students should be encouraged to use accounting terminology for all theory questions, not only when the questions specifically require it.

Question 3a.

Mark	0	1	2	3	4	5	Average
%	6	12	22	24	22	14	2.9

Students were required to use the data and information provided to explain to the owner why Net Profit had declined over the period.

The information provided indicated that sales had increased due to the employment of a part-time salesperson. Despite increasing prices, the business experienced a decrease in both gross profit margin and net profit margin.

Higher-scoring responses referred to the part-time salesperson as potentially being paid more than the gross profit generated; this could have resulted in a decision to increase staffing, which did not add sufficient value to the business.

Students also referred to the decrease in Gross Profit Margin as being due to an increase in the cost price of inventory purchased from suppliers. The information provided indicated that in 2021, suppliers' prices rose faster than the business's selling prices.

The difference between the Gross Profit Margin and the Net Profit Margin increased each year, which is an indication of poor expense control.

Lower-scoring students were unable to demonstrate a clear understanding of the difference between Gross Profit and Gross Profit Margin, and Net Profit and Net Profit Margin. They also simply repeated information provided in the question rather than providing an explanation of why Net Profit had declined over the period. Students were not required to refer to numbers provided in the graphs but rather to show an understanding. For example, it is preferable to say that Net Profit has decreased significantly over the period, rather than that Net Profit has decreased from 21% to 15%.

Students should be less concerned about providing a rote-learned response to a question like this and should aim to demonstrate an understanding of the profitability.

Overall, students performed well in this question, with over 30% scoring at least four marks by making accurate connections between the financial and non-financial information provided.

Marks	Criteria
5	Detailed connections between the source information and data provided have been made, including the links between Sales, Gross Profit and Net Profit. They have been fully explained taking into consideration non-financial information.
3-4	Links between the source information have been made and explained. Non-financial information has preferably been referred to in the connection.
2	Some information has been referenced; however, links between Sales, Gross Profit and Net Profit are not clear or explained. Minimal reference to non-financial information.
1	Basic description to the decline in Net Profit, no other information provided has been referenced
0	No reference to why Net Profit has declined over the period.

Question 3b.

Mark	0	1	2	3	4	Average
%	7	7	21	19	46	2.9

This question required students to explain two strategies that the owner of Console Corner could implement to improve profitability.

Two marks were awarded for an accurate explanation of each strategy.

Higher-scoring students identified issues from their explanation in Question 3a., with appropriate responses including:

- purchasing inventory from a cheaper supplier to allow the business to increase its gross profit margin
- purchasing inventory in bulk, which would potentially reduce the cost price as well as reduce delivery expense
- improving expense control by performing an analysis of expenses and seeking new providers
- reducing advertising expenses by using better targeted campaigns to increase sales and reduce expenses
- reducing wage expenses by improving rostering and training staff to be more flexible, allowing for an improvement in productivity.

Lower-scoring students tended to:

- provide dot point responses with no attached explanation
- refer to loans rather than revenue and expenses and did not show an understanding of profitability.

This question was generally handled well by students, with almost half the students achieving full marks. Most students demonstrated a clear understanding of the concept of profitability and explained strategies to improve it.

Question 4a.

Mark	0	1	2	3	4	5	Average
%	4	9	10	11	23	43	3.7

This question required students to provide a practical response as well as a theoretical response to support their cost price determination.

- Two marks were awarded for the correct cost price of the coffee machine.
- Three marks were awarded for an appropriate justification of the calculation.

Purchase price of inventory + freight

= $1 200 + (6 000/100)

= $1 200 + 60

Cost Price of One Coffee Machine $1 260

Higher-scoring students referred to the air freight costs as being part of getting the coffee machines to the location ready for sale and therefore being directly linked to each machine. Therefore, these were treated as a product cost and added to the purchase price to provide the cost price of the coffee machine.

Insurance paid while the coffee machines were in the warehouse is recognised as period cost and expensed separately in cost of goods sold. While insurance is a cost of getting inventory ready for sale, it cannot be directly apportioned to the cost of each individual coffee machine.

Lower-scoring students:

- failed to allocate the freight as part of the cost of the coffee machine, despite it being a cost to get the coffee machines into location ready for sale that can be logically allocated to each coffee machine
- wrote only a general theoretical response that did not provide a justification for the determination of the cost of the coffee machine.

Overall, this question was handled well by students who were able to apply theoretical knowledge of product and period costing to a practical question and then provide justification.

Question 4b.

Mark	0	1	2	Average
%	20	51	29	1.1

General Journal

Date 2023	Details	Debit $	Credit $
Mar 16	Inventory	6 000	
	GST Clearing	600	
	Bank		6 600

Students were required to prepare the General Journal entry to record the payment on 16 March 2023.

There was a range of responses, with many students finding difficulty in recording the payment of freight when it could be logically allocated to individual items of inventory.

One mark was awarded for:

- Inventory and GST Clearing
- Bank

Common errors included:

- allocating the cost of the freight to ‘freight expense’ rather than ‘inventory’
- recording the debit entry to accounts payable.

Question 4c.

Mark	0	1	Average
%	32	68	0.7

Students were required to calculate the selling price of the cost of a coffee machine.

Selling price of a coffee machine

Based on 200% mark-up on cost

Cost price = $1 260

= $1 260 * (200/100 +1)

= $1 260 * 3

Selling price of a coffee machine $3 780

One mark was awarded for a correct calculation.

Mark-up was assessed on two occasions in the exam and was well handled by most students. Some students multiplied the cost price by two rather than using a mark-up formula. Students should be prepared for mark-up questions as they have been assessed regularly.

Question 4d.

Mark	0	1	2	3	4	Average
%	10	10	12	36	32	2.7

General Journal

Date 2023	**Details**	**Debit $**	**Credit $**
Oct 31	Inventory Write-down	1 800	
	Inventory		1 800

Students were provided with the inventory card cost price of the coffee machines, and the written down value. They were required to use the information to determine the inventory write-down and record it in the General Journal of Cucina Cuisine on 31 October.

One mark each was awarded for each of the following:

- correct date of the transaction
- inventory write-down
- inventory
- correct determination of the $1 800 inventory write-down

Students found this question challenging.

Common errors included:

- non-inclusion of the date in the General Journal
- recording inventory write-down as a credit entry
- recording inventory as a debit entry
- incorrect determination of the inventory write-down of $1 800
- recording the inventory write-down as an inventory loss

It was apparent that many students did not read the question correctly. With a mark being awarded for the date of the entry, it was possible to score a mark by simply reading the question correctly.

Question 5a.

Mark	0	1	2	3	4	5	6	7	Average
%	15	11	10	9	10	12	12	21	3.8

Inventory

Date 2023	**Cross Reference**	**Amount**	**Date 2023**	**Cross Reference**	**Amount**
Jan 1	Balance	60 000	Jun 30	Cost of Sales	170 000
Jun 30	Bank	178 000		Inventory Write-down	4 000
			Jun 30	Balance	64 000
		238 000			**238 000**

GST Clearing

Date 2023	Cross Reference	Amount	Date 2023	Cross Reference	Amount
Jun 30	Bank	20 900	Jun 1	Balance	3 000
	Bank	14 600	Jun 30	Bank	32 500
		35 500			**35 500**

Students were required to determine the cash flow requirements of Gradz Art Supplies through preparation of inventory and GST Clearing ledger accounts.

One mark each was awarded for each of the following:

- Correct opening and closing balances of the inventory ledger and the opening balance of the GST Clearing ledger
- Bank $178 000
- Cost of Sales $170 000
- Inventory Write-down $4 000
- Bank $20 900
- Bank $14 600
- Bank $32 500

This question required students to use an Income Statement and additional information to prepare ledger accounts. There were a range of responses, with cross-references causing issues for many students.

While the inventory ledger was generally well handled, common errors included:

- use of GST Clearing as a cross-reference in the GST Clearing ledger.
- failure to read the question correctly and omitting the $20 900 of GST payments made during the period
- recording the $32 500 of GST Collected as Sales rather than Bank.

GST Clearing is a key knowledge area in the Study Design, and students must have a comprehensive understanding of the GST Clearing account.

Cross-references are a basic skill with ledger accounts. These should be covered in class regularly.

Question 5b.

Mark	0	1	2	3	4	5	6	7	Average
%	12	11	15	10	9	10	14	20	3.8

Students were required to use information provided to prepare the Cash Flow Statement for the period ended 30 June 2023.

Gradz Art Supplies

Cash Flow Statement (extract) for the 6 months ended 30 June 2023

Cash from Operating Activities	$	
Cash Sales	325 000	
GST received	32 500	357 500
Cash purchases of Inventory	(178 000)	
GST settlement to ATO	(14 600)	
GST paid	(20 900)	
Prepaid Rent	(25 000)	
Wages	(43 000)	
Administration expenses	(6 000)	(287 500)
Net Cash Flow from Operating activities		70 000

One mark each was awarded for each of the following:

- Cash Sales
- GST received.
- Cash purchases of inventory
- GST settlement to the ATO and GST paid.
- Prepaid rent
- Wages and Administration expenses
- Net Cash Flows from Operating Activities

This question was generally handled well, although it did cause issues for some students.

Common errors included:

- non-inclusion of GST received
- not using the Cash purchases of inventory that was calculated in the inventory ledger
- reporting Prepaid Rent as $24 000 and not allowing for the additional prepayment
- not using correct titles.

While more than 30% of students scored at least six marks, some lacked attention to detail in preparing a Cash Flow Statement. Practise of effective use of reading time throughout the year will assist students in gaining the ability to apply greater attention to detail under examination conditions.

Question 5c.

Mark	0	1	2	3	4	Average
%	27	19	18	20	16	1.8

Students were required to explain the accountant's comment that 'the Operating Activities section of the Cash Flow Statement often provides more important information than the Income Statement – although the differences are not as much given you buy and sell for cash.'

Marks	Criteria
4	Detailed explanation of the difference between Net Cash from Operating Activities and Net Profit with a well explained example.
3	Limited explanation of the difference between Net Profit and Net Cash; an example may be mentioned but not explained.
2	Definitions provided and a comment about why Net Profit and Net Cash are not the same.
1	Basic definitions of Net Cash and Net Profit.
0	Displays no knowledge of the difference between Net Cash from Operating Activities and Net Profit.

This question took a different approach to the traditional style of cash-versus-profit questions used in previous examinations. A similar approach in developing a response to previous questions was however still applicable.

Higher-scoring students referred to the business as needing to generate cash from its normal trading activities if it is to survive in the long term. Net cash from Operating Activities provides funds to repay debt and to allow the owner to take drawings. A business can often survive a period of trading losses, but it is more difficult to survive when cash flow is an issue.

Students referred to the difference between net profit and cash. Net profit is calculated by revenue earned less expenses incurred, while cash from operating activities refers to the cash inflows less the cash outflows from the day-to-day trading activities of the business.

Students were able to use a range of possible examples, although they were required to use the information provided for their example.

As net profit is calculated on an accrual basis it could include non-cash items such as depreciation or inventory write downs, which reduce net profit without impacting cash flows from day-to-day trading activities of the business.

Higher-scoring students referred to the sales as not impacting the difference between cash and profit as they are all on a cash basis, although the purchases and cost of sales could result in a difference if not all inventory is sold in the same period in which it is purchased.

Question 6a.

Mark	0	1	2	3	4	5	6	7	8	9	10	11	12	13	Average
%	6	0	0	17	7	6	6	6	6	6	6	7	10	17	7.7

Prepaid Rent

Date 2023	Reference	Amount	Date 2023	Reference	Amount
Sep 1	Balance	12 000	Sep 30	Rent expense	4 000
				Balance	8 000
		12 000			12 000
Oct 1	Balance	8 000			

Wages Expense

Date 2023	Reference	Amount	Date 2023	Reference	Amount
Sep 13	Bank	4 300	Sep 30	Profit and Loss Summary	9 700
Sep 27	Bank	4 500			
Sep 30	Accrued wages	900			
		9 700			9 700

Unearned Sales Revenue

Date 2023	Reference	Amount	Date 2023	Reference	Amount
Sep 30	Sales	1 500	Sep 26	Bank	2 000
	Balance	500			
		2 000			2 000
			Oct 1	Balance	500

Depreciation of Delivery Van

Date 2023	Reference	Amount	Date 2023	Reference	Amount
Sep 30	Accumulated Depreciation – Delivery Van	600	Sep 30	Profit and Loss Summary	600
		600			600

Allowance for Doubtful Debts

Date 2023	Reference	Amount	Date 2023	Reference	Amount
Sep 30	Balance	4 000	Sep 1	Balance	1 700
			Sep 30	Bad debts	2 300

		4 000			4 000
			Oct 1	Balance	4 000

- Three marks were awarded for the Prepaid Rent expense ledger account.
- Two marks were awarded for the Wages Expense ledger account.
- Three marks were awarded for the Unearned Sales Revenue ledger account.
- Two marks were awarded for the Depreciation of Delivery Van ledger account.
- Three marks were awarded for the Allowance for Doubtful Debts ledger account.

Students were provided with a list of items requiring balance day adjustments to be recorded in ledger accounts.

Most students were able to score marks throughout the list of balance day adjustments.

Common errors included:

- incorrect balancing of appropriate accounts, including the carried forward balance
- incorrect closing of appropriate accounts to the profit and loss summary account
- use of incorrect cross-references such as unpaid wages rather than wages expense
- reversal of entries, resulting in debit entries being recorded as credit entries
- use of incorrect cross-references, e.g., Accumulated Depreciation instead of Accumulated Depreciation of Delivery Van
- incorrect recording of bad debts.

It was apparent that students who read the question thoroughly before answering were better placed to gain all marks as they addressed all aspects of the question. Many students missed marks by not closing or balancing accounts as instructed in the question.

The broad spread of marks was an indication of the numerous minor errors made by students within this question. As the question offered 13 marks, there were many opportunities for simple errors to be made through insufficient attention to detail.

Question 6b.

Mark	0	1	2	3	4	Average
%	12	12	15	19	42	2.7

Students were required to explain the treatment of one of the balance day adjustments.

One mark was awarded for each of:

- identifying the balance day adjustment
- referral to the accounting assumption. The accrual basis assumption and period assumption were both acceptable responses.

Two marks were awarded for:

- explaining the treatment of the balance day adjustments.

There were five possible balance day adjustments students could refer to:

- An adjustment was required for the rent incurred by Big Sportz. The balance day adjustment was required as the rent paid by the business was reported as a current asset until the rent is consumed by the business. The balance day adjustment allows for an accurate allocation of prepaid rent and rent expense in Big Sportz reports.

- An adjustment was required for the wages incurred but not yet paid. The balance day adjustment was required as the wages incurred need to be reported as an expense of $900 and a current liability of $900. The balance day adjustment allows for accurate recording of wages expense and accrued wages expense in Big Sportz reports.
- An adjustment was required for the inventory supplied to the customer. The adjustment was required to reduce the unearned sales revenue, which is reported as a current liability as Big Sportz no longer has a present obligation to transfer an economic resource to the basketball club.
- An adjustment was required for the depreciation of the delivery van as the business has consumed part of the cost of the delivery van and must allocate the cost of the delivery van consumed against the revenue earned in order to calculate an accurate net profit.
- An adjustment was required for the bad debts expense as Big Sportz needed to increase its allowance for doubtful debts, which resulted in an increase in bad debts. Big Sportz records the bad debts expense in order to recognise the bad debts expense in the period in which the sale occurred in order to calculate an accurate net profit.

There was a variety of responses, with 42% of students achieving full marks.

Common errors made by students included identifying an incorrect accounting assumption or not explaining the treatment of the balance day adjustment.

This question was posed in a different style from previous examinations but was very generally well handled by students.

Question 7a.

Mark	0	1	2	3	4	5	6	Average
%	11	5	9	8	11	17	39	4.1

This question took a different approach to explaining the impact of transactions on a Cash Flow Statement from previous exams.

One mark was awarded for explanation of how the business's expansion impacted each section of the Cash Flow Statement during April and May.

Higher-scoring students applied the source information provided to explain specific scenarios impacting the Cash Flow Statement.

Lower-scoring responses tended to make basic statements such as 'Operating Cash Flows increased by $24 000', which, while accurate, did not explain the impact of the expansion on the business.

Lower-scoring responses also referred to incorrect reasons such as loan repayments as impacting on financing cash flows and not recognising that it was an interest-only loan.

It is important that students use reading time effectively. Many lower-scoring students did not appear to have read the questions and the tasks required within it correctly.

Overall, students responded well to this question. Most students were able to apply the source information to demonstrate a sound understanding of how transactions impact each section of the Cash Flow Statement.

April

Operating As Starters Batteries prepaid three months of rent, purchased new inventory for cash and hired two new staff, this resulted in an outflow of cash from operating activities. The interest on the loan may also be paid during April. While cash sales would increase cash flows from operating activities, the overall impact is a decrease in cash flows from operating activities compared to March.
Investing There was significant outflow in cash flows from investing activities during April. The purchase of the shop fittings as part of the expansion of the business were the reasons for the outflows.
Financing The business took out an interest-only loan during April. This loan resulted in positive net cash inflows from financing activities.

May

Operating As rent was prepaid in April, it would not be considered a factor. Starters Batteries has expanded, and while this may have increased sales, they have introduced credit sales and, therefore, may not have increased cash received. The expansion may have required additional inventory to be purchased on a cash basis, and the interest paid on the loan would reduce net cash flows from operating activities, which, while positive, were lower than in April.
Investing There was significant outflow in cash flows from investing activities during May. The purchase of the computer system as part of the expansion of the business would have been the major reason for the negative cash flows from investing activities.
Financing The business increased the borrowing of the interest-only loan during May. This loan resulted in positive net cash inflows from financing activities.

Question 7b.

Mark	0	1	Average
%	49	51	0.5

Students were required to use the information provided to calculate the bank balance on 31 May 2023.

The opening balance was supplied in the information provided about the business, and the Net Cash Flow graph provided the data required to calculate the balance.

Common errors made by students included missing the opening bank balance and using the incorrect month in the graph to calculate the bank balance.

= Opening Balance + Operating Activities – Investing Activities + Financing Activities = $16 000 + $11 000 - $60 000 + $40 000 **Budgeted Bank Balance on 31 May 2023** $7 000

Question 7c.

Mark	0	1	2	3	4	5	6	Average
%	12	13	15	17	17	16	10	3

Students were required to discuss whether the owner should be concerned about the liquidity of the business.

As students were provided with a substantial amount of source information, they were not required to refer to it all on order to achieve full marks.

When considering the ability of the business to meet its short-term debts as they fall due, students were required to consider the source information provided. As Starters Batteries was entering an expansion phase, it would be considered reasonable that cash flows could be negative in the short term, while potentially becoming positive in the long term.

While this is a reasonable approach, the owner would need to take into consideration the continual decrease in cash flows from operating activities, although the budgeted May figures could be the result of credit sales that had been introduced, and cash inflows from the sales may not have impacted the Cash Flow Statement until June. The purchase of inventory on a cash basis to provide inventory for those sales would have had a negative impact on cash flows from operating activities in May.

The owner has also indicated that they will not be able to make further capital contributions. This could be a concern if there where liquidity issues as the business may have had to increase loans again, which would further increase cash outflows from operating activities as it increases interest repayments.

The bank balance is expected to decrease from $16 000 to $7 000 during May, despite an increase in the loan received by the business, which is a concern.

As this was a discussion question, students were required to consider both sides of the discussion. Many lower-scoring students simply focused on explaining why they believed that the owner should or shouldn't be concerned by the liquidity of the business, and didn't provide a counter argument.

There were multiple ways students could have approached this question. Students needed to ensure that their response provided a detailed discussion about the liquidity of the business.

Marks	Criteria
5-6	Detailed discussion of the liquidity of the business, drawing on a number of parts of the information provided that are linked well. Discussion would include examples that justify whether the owner should be concerned.
3-4	Limited discussion of the liquidity with links to some of the information provided. Reference to why owner should be concerned about liquidity.
1-2	Basic comment about whether they should be concerned with a limited link to the information provided.

Question 8a.

Mark	0	1	2	3	4	5	Average
%	6	4	12	19	26	33	3.5

One mark each was awarded for each of the following:

- cost price
- fast charger cost
- fuel and recharge costs
- registration, insurance, and maintenance costs
- estimated residual value.

This question was generally well handled by students.

This type of question has appeared on recent exams, and while there was an overall improvement in approach, many students missed marks due to either a failure to read and interpret the question accurately or to accurately apply knowledge such as the application of GST.

Common errors included:

- inclusion of GST in the cost price and expenses
- incorrect determination of the fuel and recharge costs.

	Electric vehicle	**Hybrid vehicle**
Cost price	78 000	60 000
Fast charger – supply/install	1 500	
Fuel/recharge costs	6 250	22 500
Registration/insurance/maintenance	14 250	16 250
Subtotal of vehicle costs	100 000	98 750
less estimated residual value	31 200	27 000
Total cost of holding each vehicle over its useful life	68 800	71 750

Question 8b.

Mark	0	1	2	3	4	5	6	Average
%	9	4	8	18	23	24	14	3.7

Students were required to discuss the financial and ethical issues related to purchase of a new vehicle and to make an appropriate recommendation to the owner. Almost half of the students score at least five marks.

The scenario provided students with a range of options in discussing the vehicle purchase and making a recommendation to the owner.

The two options provided to the owner include an electric vehicle and a hybrid vehicle. Dobba's Enviroclean Supplies is considering the purchase of a new vehicle and the two options provided are an electric vehicle and a hybrid vehicle. In deciding which vehicle to purchase, the owner requires you as the accountant to take into consideration both financial and ethical issues relating to the purchase.

Higher-scoring students referred to the ethical nature of the cleaning business, in selling environmentally friendly cleaning materials, and the image that the type of vehicle purchased would convey to the business's customers.

The range of the electric vehicle was suitable for the metropolitan customers, although it could have an impact on the growth of the business as they may not be able to service customers in regional centres. The owner would need to consider whether the limited kilometres could have a negative impact on customers such as schools in regional areas that would like to use their environmentally friendly products.

The electric vehicle had higher costs initially as the original purchase price is significantly higher than the hybrid vehicle, although the lower running costs result in the electric vehicle having lower costs overall over the life of the two vehicles.

From an ethical perspective, the owner should have considered the environmental impact of the vehicles. This was particularly important as the business sells environmentally friendly products and had developed a brand that values the environment. While the hybrid vehicle had lower emissions during the manufacturing stage, the electric vehicle had lower emissions over the life of the vehicles.

Some students referred to a potential liquidity issue if the initial outlay for the vehicle resulted in the business not being able to meet other short-term debts as they fall due. Students were required to make a recommendation regarding the purchase of a vehicle. While most selected the electric vehicle, it was possible to achieve full marks by justifying the purchase of the hybrid vehicle.

Marks	Criteria
5-6	Detailed discussion of both vehicle options, including financial and ethical considerations, with a number of pros and cons highlighted that are logically linked to the decision between an electric or hybrid vehicle, and a recommendation.
3-4	Some limited discussion of the vehicle options available and financial and ethical considerations, preferably with a recommendation.
1-2	A very basic comment or recommendation. With very little reference to ethical and financial considerations to support the recommendation.
0	Displays no knowledge of financial or ethical considerations but has attempted the questions.

Question 8c.

Mark	0	1	2	Average
%	33	49	18	0.9

Students were provided with an extract from a Balance Sheet and were required to explain what the $11 000 appearing the question stem referred to.

One mark was awarded for:

- carrying value
- cost of the vehicle that is yet to be consumed by the business plus the estimated residual value.

The $11 000 represented the carrying value of the vehicle. The carrying value is made up of the cost of the vehicle yet to be consumed by the business, plus the estimated residual value.

This question was generally not handled well by students. It was a good example of an aspect of the course where students were able to determine the carrying value of the vehicle, while not being able to explain what the number represents.