ACCOUNTING

Paper 0452/11
Paper 11

Key messages

It is important to read through each question very carefully before attempting an answer. This ensures that an important piece of information is not overlooked and that instructions are followed precisely.

Where appropriate supporting calculations should always be shown. Even if the final answer is incorrect, some credit may be earned for some of the figures in the calculation.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out all or part of their answer and provide another answer elsewhere on the question paper. It is important that candidates indicate that this has been done. A note "Please refer to Page ..." or "continued on Page ..." would ensure that this additional work is not overlooked when the script is being marked.

Candidates should avoid the use of inappropriate abbreviations such as "b/d" for "Balance" in ledger accounts and "GP" and "C of S" for gross profit and cost of sales in income statements.

General comments

In general candidates dealt reasonably well with the paper. Candidates seemed to be less proficient at the written explanations and definitions than the calculation aspects.

Comments on specific questions

Question 1

The majority of candidates attempted all questions. Many candidates found **(e)** to be challenging.

Question 2

(a) Candidates scored very well in this question as they categorised a range of items. The main item which caused a problem was the 'rent receivable accrued'.

(b) Candidates performed well on this question and gave a correct advantage and disadvantage of being a partner rather than a sole trader. Only a small number of candidates referred to aspects of a partnership agreement being an advantage.

(c) The most common responses to this question were 'the bank', 'suppliers' and 'the government' with appropriate reasons for their interest in financial statements. However, some candidates who named the bank as an interested party did not make it clear that they would look at the financial statements for the ability of repaying a new loan or overdraft. The bank would clearly know if they were repaying a current loan or overdraft. A small number of candidates named the owner or shareholders as an interested party despite the question stating to name three parties other than the owner.

(d) Most candidates were able to give two causes of depreciation. A small number gave two methods of depreciation e.g. straight line (equal instalments) and reducing (diminishing) balance. Others referred to damaged inventory.

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(e) This question covered features of depreciation and generally it was well attempted with many candidates gaining full marks. Most candidates followed the instructions by identifying 'true' or 'false'.

(f) Many candidates did not understand an 'accounting' objective and suggested 'making a profit' or 'preparing financial statements'.

(g) Generally this question was well attempted.

Question 3

(a) There were many good answers with the majority citing that the reason for maintaining a petty cash book was to free up space in the main cash book. Some candidates, however, did not give a reason but cited what the petty cash book was used for e.g. recording items of relatively low expense.

(b) This question was not answered well with many repetitions of **(a)**. Many just said that each month you started with the imprest amount rather than an advantage of the imprest system.

(c) The petty cash book, on the whole, was very well attempted. A number of candidates lost marks for poor narratives and the wrong analysis column. Each entry needed the correct narrative, entered in the total column and in the correct analysis column.

(d) There were many good answers with a large number awarded 3 marks. A small number lost marks through wrong labels and incorrect amounts.

(e) This question saw a very small number of candidates being awarded a mark. There seemed little understanding that what had been correctly posted to the computer supplies column in **(c)** should come through to the posting from the petty cash book to the ledger account at the end of the month.

(f) Candidates provided many good reasons for preparing a bank statement suggested. Weaker candidates, however, although making suggestions, did not give a full reason. It is not enough to say there may be errors. Candidates must be encouraged to give a full answer. Candidates also mentioned 'to identify differences' without stating what these differences may be or a purpose was to ensure that the cash book and the bank statement balance are equal or the same.

(g) The updated cash book was generally well-attempted by a large number of candidates with many achieving full marks. Some candidates, however, lost marks for not writing the appropriate details in the cash book, even though they arrived at the correct final balance. It was common to see 'dishonoured cheque' without a reference to Jabir, or 'direct debit' with no reference to rates. A number of candidates did not refer to the cash book error, but described this as 'undercast'. Weaker candidates included the cheque received from Shadya and the cheque paid to Abasi.

(h) Stronger candidates, who achieved near or full marks in **(g)** had no problem with the bank reconciliation statement. There were many candidates who struggled with the statement, merely listing the adjustments with no starting or ending point.

(i) Many candidates did not seem to appreciate that the figure to appear in the financial statements should be the adjusted cash book balance as calculated in **(g)** and not the bank statement balance from **(h)**. Most candidates did identify the correct section of the statement of financial position.

(j) Many candidates suggested good reasons why Jabir's cheque may have been dishonoured.

Question 4

(a) Some candidates answered this question well and achieved full marks. A number of candidates did not attempt this question at all, or did not attempt all of the ledger accounts. There were varied attempts at the AX account with the most common error being in the entries of the purchases and purchases returns gross. The most common error was to omit the settlement discount. In the FM account some candidates did not identify the correct amount needed to settle the account with bringing down a balance of $2127. The purchases and purchases returns account seemed to

cause the most problems for candidates. Many did not appreciate that the accounts needed to be closed with a transfer to the income statement.

(b)(i) There were many good answers from the majority of candidates with the most common answer for receiving trade discount being purchasing in bulk. A small number of candidates suggested trade discount was received for paying promptly.

(ii) Most candidates calculated the correct trade discount with only a few reversing the answer to 80%.

(c) Most candidates attempted **(i)** and **(iii)** well. Many did not identify sales invoice in **(i)** but 'just' invoice was accepted. In part **(ii)** debit notes were confused with credit notes and for **(iii)** weaker candidates named financial statements instead of statement of account. It may be helpful to candidates in this type of question to draw a diagram as to who is where the transaction originates.

Question 5

(a) (i)(ii)(iii) This question required candidates to define raw materials, work in progress and finished goods. Most candidates addressed the definition in a suitable manner and an appropriate example. However, it was clear that a number of candidates did not read the question carefully and did not give a suitable example relevant to Addae's business. A small number of candidates offered 'buying in goods' for 'finished goods', again not reading the requirements of the question.

(b) Some candidates produced good and well laid out manufacturing accounts and were awarded full marks. Weaker candidates simply produced lists of expenses. Whilst depreciation of machinery was correctly calculated marks were lost to incomplete narrative. Closing inventory was sometimes included in the calculation and many candidates did not extract a sub-total before deducting closing work in progress. A small number of candidates deducted indirect costs from Prime Cost.

(c) There were some very good responses to this question with two very valid reasons to reduce the cost of production. Some candidates, however, did not focus on reducing the cost of production and offered increasing sales, reducing expenses without being more specific and also buying in goods.

(d)&(e) Both these questions were correctly calculated. Some candidates lost marks as they did not show the answer to two decimal places.

(f) Some candidates did not address their responses to improving the profit for the year. Commonly reducing costs were suggested without being more specific to the administration or selling costs.

Question 6

(a) A large number of candidates were able to provide two good reasons for opening a suspense account. To 'locate errors' and to 'balance the trial balance' were the most common responses.

(b) Many candidates found this task challenging. The ability to use the suspense account to correct a range of errors appeared weak. Error 2 (carriage) was dealt with correctly by many candidates but in error 3 entries were often reversed and the name of the account was often referred to as sales journal. In error 4, again, entries were often reverse and amount were a combination of $460 and $640.

(c) Most candidates recognised that not all errors had been discovered although they were not always able to say why. A number made reference to errors that would not affect the balancing of the trial balance.

(d) This question was very well attempted by a large number of candidates. Some candidates lost their final corrected profit figure through not calculating correctly or through reversing the increase or decrease.

ACCOUNTING

<table>
<tr><td>Paper 0452/12
Paper 12</td></tr>
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Key messages

It is essential to lay down a good grounding in the principles of double entry including the use of journals and ledgers and have clear narratives.

Where appropriate supporting calculations should always be shown. Even if the final answer is incorrect, some credit may be earned for some of the figures in the calculation. It is better to cross out incorrect answers and write separately rather than over the top of the previous answer. If an answer is allocated a small space then this is indication that the answer should be brief.

Multiple choice answers should be annotated in the boxes provided and not directly next to the letter.

General comments

All the questions on the paper were compulsory and covered various topics on the syllabus.

Overall, the paper was well attempted by a number of candidates. There were some candidates who were clearly well-prepared.

Comments on specific questions

Question 1

Generally **(b)**, **(d)**, **(e)**, **(g)** and **(i)** were well answered. Parts **(a)**, **(c)**, **(f)**, **(h)** and **(j)** require more detailed comments.

(a)   The common error here was to confuse debit note with credit note. It is the person who has been supplied the goods who requests a debit note and it is the supplier who issues the credit note.

(c)   Carriage inwards is calculated separately to the valuation of inventory using net realisable value.

(f)   There was confusion here with the difference between capital and revenue expenditure. If an expenditure involves repairing or renewing or is a recurring cost for the non-current asset then it is revenue expenditure. Legal fees for purchasing a factory are a one-off cost so can be capitalised.

(h)   This question involved working backwards from the final figure of $285 000 to discover the starting figure for the retained earnings. The correct answer was $232 500 which involved adding back the transfer and dividends to the starting point of $285 000 and then subtracting the profit for the year.

(j)   There were several stages to this calculation. First the provision for doubtful debts had to be calculated by subtracting the bad debt of $750 from the trade receivables and then finding 2 per cent which is $1885. This needed subtracting from the trade receivables figure of $95 000 along with the bad debt to leave a net trade receivables figure of $92 365.

Question 2

(a)   Some candidates answered this question well. The following types of errors were common among other candidates: reference to accounts, reference to fraud or errors and reference to preparing

financial statements. The two most common correct answers were division of labour and fewer entries in the ledgers.

(b) Well-prepared candidates usually gained three marks but others made some errors including: reference to accounts or ledgers, reference to sales journal rather than cash book for transaction 1 and reference to purchase journal rather than general journal for transaction 3.

(c) There was a wide range of marks. Better prepared candidates frequently gained eight or nine marks. The most common error was to use the narrative 'road tax' rather than 'motor vehicle expenses'. Other common errors included: using purchases rather than purchases returns for credit entry in transaction 1 or inventory or goods rather than purchases for the credit entry in transaction 5, incorrect totals for items in transactions 2 and 3, discount allowed shown as cash discount, reversal of entries or omission of totals or narratives.

(d) Most candidates gained at least one mark however entries were often confused by the presence of many irrelevant items. Common mistakes included referring to only one of the items to be added either $220 or $392, not starting with the opening balance $838 credit, incorrect totalling of figures such as not recognising that the opening balance is a negative/credit balance.

(e) (i) and (ii) Answered reasonably well by many candidates. Some candidates referred to wrong ledgers or journals/accounts/control accounts. The most common error for part **(ii)** was purchases ledger.

Question 3

(a) Well-prepared candidates gained seven or eight marks. Errors included: reversal of some items or all items, inclusion of extraneous items such as discount allowed and cash purchases, incorrect narrative for bank, incorrect calculation of missing figure for the bank and entries omitted such as the contra for the sales ledger.

(b) Answered well by most candidates, however errors seen included: omission of $\times 365$ and sometimes 360 used instead, multiplying by 100 and purchases rather than credit purchases used.

(c) Generally well answered if the candidates knew the formula. Some did not round to the next whole day as instructed.

(d) This answer depended on own figure answer from **3(c)**. The first part was generally very well answered but sometimes the reason given was vague. Occasionally candidates got both parts wrong because they were considering the situation from Kumu's point of view.

(e) This was generally answered well. However, answers sometimes linked to current liabilities and liquidity which was not rewarded. Candidates needed to be specific about cash discounts being missed out on rather than discounts in general.

(f) The majority of candidates gained full marks.

(g) Candidates scored a wide range of marks on this question. More able candidates frequently gained three marks. Common errors included: attempting to include profit in the calculation, omitting cash purchases, omitting purchases and gaining a total of $240 000 for opening inventory.

(h) Generally well answered but candidates need reminding not to use abbreviations such as COS in place of cost of sales.

(i) This was answered reasonably well but weaker candidates often showed no response. Common errors included: not calculating the average inventory and using either just the opening or just the closing inventory, poor rounding of ratios as needed to be to 2 decimal places or adding % or stating the ratio: 1 instead of times.

Question 4

(a)   Most candidates gained some marks on this question with very able candidates gaining five or six marks. Candidates did not always follow the instructions on how to indicate the correct answer. In addition if they changed their mind it was often difficult to understand which their answer was. Candidates should take a little time to read instructions.

(b)   A common incorrect answer was $360 which was the amount for the lessons which the pupils had received and not the amount which had been prepaid which was required here.

(c)   Answers varied here. Marks were awarded for correct figures or own figure from **4(b)**. Sometimes there was no reference to the total receipts from lessons, $20 200, the figure carried forward was not from **4(b)** or the $240 or own figure was added to $20 200 rather than subtracted.

(d)   A range of marks were awarded. Some answers were vague but most candidates knew that adjustments were necessary for accruals and prepayments. Chandra is a new business and lessons were all paid for in advance so there was no accrued lesson income. Candidates are generally more confident when dealing with prepaid expenses rather than prepaid revenue.

(e)   Well-prepared candidates gained six marks for a well presented answer using the increase and decrease columns for amounts and the final column for one total the revised profit of $8349. Weaker candidates lost marks for various reasons including: reversal of entries in increase/decrease columns, putting answer for an error on the wrong row, too many entries in the table that contradicted each other and poor calculation of revised profit with candidates mixing up the increase and decrease columns. Candidates need more practice at using tables correctly and using the information available in the question appropriately.

(f)   Most candidates were awarded the full two marks.

(g)   Most candidates gained at least one mark. The best answers were concise, for example, Chandra is a sole trader while LQ is a limited company or that the businesses are of different sizes. Just stating that the businesses were of different types was insufficient and suggested that the product or service was different which was incorrect as they are both driving schools.

Question 5

(a)   There were some good answers here with correct narratives, amounts, dates and sides of the accounts. Weaker responses had a variety of errors including: incorrect dates (years are needed as well as months and days), incorrect narratives which was mainly stating income statement instead of income and expenditure account, incorrect amounts for income and expenditure and partial reversal or complete reversal of account.

(b)   Most candidates gained good marks on this question with well-prepared candidates gaining nine or ten marks. Marks were lost most frequently for omitting subscriptions from the receipts side. Other common errors included: labelling sports equipment as purchases, netting-off competition income and prizes, placing some items on the wrong side, incorrect figure for subscriptions etc.

(c)   A wide range of marks were given here. The ideal answer was set out clearly with subheadings, precise labels and correct totals gaining seven marks. Weaker candidates gained zero for no response or attempting an income and expenditure account. Common errors included: incorrect figure for sports equipment, prepayment labelled as rent rather than rent prepaid or other receivables, accrual labelled as general expenses rather than general expenses accrued or other payables, surplus in wrong section or labelled as profit, omission of subscriptions owing and bank account and using capital as a heading rather than accumulated fund. Candidates needed to use their bank figure from **5(b)** but sometimes they used the opening balance instead.

(d)   There was some misunderstanding by many candidates of the word arisen so examples of how the accumulated fund increases were allowed. No marks were awarded for reference to profit, or capital or the owners investing funds.

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Question 6

(a)   A wide range of marks were achieved. An excellent answer added assets and deducted liabilities taking into account adjustments with clear presentation. Most candidates gained some marks but these were limited by the following kinds of error: poor adjustment for depreciation, omission of the capital introduced in the form of non-current assets, no adjustment or incorrect adjustment of trade receivables, omission of prepaid rent $120, addition of liabilities rather than deductions and inclusion of opening capital of $20 300. Candidates should make it clear in such questions whether an item is to be added or subtracted.

(b)   Many weak responses gained no marks. Only a few candidates arrived at the answer of $452 for profit, a few gained five marks based on their own figure from **6(a)**. These answers tended to start with closing capital or use the capital account with a ledger format. Most candidates made mistakes and there were many different types of presentation. Typical errors included: attempting to use an income statement format sometimes with the inclusion of drawings, repeating many figures from **6(a)** for example inventory, omission of new capital $5500 and incorrect addition or subtraction of drawings. Some candidates used the capital account format from the statement of financial position but then altered the format incorrectly to find the missing profit figure and did not note the figure was a loss based on own figure.

(c)   This was generally answered well. Weak answers referred to returns or money earned rather than profit.

(d)   The majority of candidates gained the mark. The main errors were lack of multiplication by 100 or stating revenue rather than profit for the year.

(e)   This was answered reasonably well. If the formula in part **6(d)** was incorrect however, some candidates added the × 100 at this stage and then gained one or two marks. Candidates gained one mark if closing capital was used rather than the requested opening capital. There was some incorrect rounding to 2 decimal places.

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ACCOUNTING

> **Paper 0452/13**
> **Paper 13**

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ACCOUNTING

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| **Paper 0452/21** |
| **Paper 21** |
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Candidates should avoid the use of inappropriate abbreviations such as "b/d" for "Balance" in ledger accounts and "GP" and "C of S" for gross profit and cost of sales in income statements.

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of "old" terminology such as "stock" and "net profit".

It is very important that candidates present figures clearly and that written work is legible.

General comments

All the questions on the paper were compulsory and covered a wide range of syllabus topics. Most candidates attempted to answer all questions. Those candidates who had a good knowledge of the subject were able to apply that knowledge to the scenarios presented on the question paper.

It is important that candidates know the correct form of presentation for financial statements and ledger accounts. In any financial statement or ledger account attention must be given to the wording as well as the figures.

Some of the answers to the theory questions were far too vague and lacked clarity. Accounting is a subject in which precision is extremely important.

Comments on specific questions

Question 1

(a)   Candidates were required to identify two books of prime (original) entry. Most candidates correctly identified the sales returns journal. There were various incorrect answers to the book in which bad debts would appear, ranging from cash book, general ledger and nominal journal.

(b)   Using information provided a purchases ledger control account had to be prepared. A missing figure representing the amounts paid to credit suppliers had to be inserted. This question presented very few problems for the more able candidates. A number of candidates included extraneous items such as cash purchases and items related to trade receivables. Some items were incorrectly identified such as "carriage inwards" incorrectly described as "carriage outwards

(c) Two reasons for the debit balance in the purchases ledger were required. Answers were sometimes a little vague and not related to the particular scenario.

(d) An explanation was required of how maintaining a provision for doubtful debts is an application of the principle of prudence. The majority of candidates appreciated that this prevented the profit and the trade receivables/current assets from being overstated. Some responses were too vague. "The assets will not be overstated" was regarded as too general to merit the mark.

(e) Candidates were required to discuss how an increase in the rate of cash discount would affect liquidity and future profit. Most candidates appreciated that the cash would probably be received earlier than previously. Some then explained that this would allow the trader to use that cash within her business. Very few mentioned that the amount received would be reduced because of the discount.

Many candidates understood that a higher cash discount would cause an increase in expenses and a reduction in profit. A few also mentioned that the risk of bad debts may be reduced as a result of customers paying earlier. A number of candidates incorrectly believed that the cost of sales would be affected.

Question 2

(a) An opening journal entry was required. Many candidates seemed unfamiliar with this type of entry and produced separate journals entries for each of the items. It was expected that candidates would be familiar with the format of a journal entry i.e. account(s) to be debited, account(s) to be credited and a narrative. A journal should name the accounts in the ledger in which an entry is to be made. For example "purchased premises" rather than "Premises" and "loan" rather than "AB Loans" were not regarded as acceptable.

(b) Two other uses of the general journal were required. Common correct responses included writing off bad debts and correction of errors.

(b) Candidates were presented with an incorrect trial balance together with details of additional errors and a corrected trial balance had to be prepared. Many candidates incorrectly included both the opening and closing inventories. Other common errors included omitting drawings and the petty cash balance, and not making the appropriate adjustments for the purchases returns and the bank charges. Where correct amendments were made to the items the totals of the trial balance agreed. When the trial balance totals do not agree it is expected that candidates will understand that it is necessary to open a suspense account.

Question 3

(a) A number of partially completed ledger accounts were presented together with additional information relating to these particular accounts. Candidates were required to make any necessary entries in the accounts and to close or balance the accounts as appropriate. Those candidates who had a good knowledge of double entry were able to earn good marks. Other candidates seemed to be uncertain about when to balance an account and when to make a transfer to the income statement. Where a transfer is made to income statement it should be shown as one figure in the ledger account (not two individual transfers). A significant number of candidates transferred the totals of the discount columns in the cash book to the incorrect discount accounts in the ledger resulting in incorrect transfers to the income statement.

(b) A disposal of motor vehicle account was provided and candidates were required to explain each entry in the account and to state where the double entry would be made. Answers were often very generic and completely unrelated to the account provided. For example "this is the cost of a motor" was not an adequate explanation for the entry representing the original cost of the motor vehicle which was being disposed of. A number of candidates did not appear to understand what the entries in the disposal account represented. Despite the instruction about stating whether the double entry account would be debited or credited, many candidates stated the name of an account without any indication where the entry would be made in that account.

Question 4

(a)   Candidates were provided with information at the end of the financial year and were required to prepare an income statement of an advertising agency. A number of candidates did not seem to be familiar with the preparation of an income account for a service business and attempted to introduce revenue and cost of sales by using the figures representing capital and office equipment. A common error was to include rent receivable as $10 400 instead of $4800. Those candidates who included calculations for the items requiring adjustments were able to earn some of the available marks for those items even though the final figures were incorrect. A provision for doubtful debts had to be created. This should have been calculated at 2% on the amount of trade receivables and not 2% on the fees for the year. Suitable descriptions should be shown for the items in an income statement. For example "Dep MV" and "NP" are not regarded as adequate.

(b)   The formula for the calculation of the return on capital employed had to be stated. There were many correct responses. In questions like this it is important to write the words out in full and to include "x 100".

(c)   Using the opening capital and the profit for the year (calculated in Part **(a)**) candidates were required to calculate the return on capital employed. This was well done. Some candidates did not display the answer as a percentage and others ignored the instruction to use the capital at the beginning of the year.

(d)   Candidates were required to state two reasons why one business earned a higher return on capital employed. Many correctly stated that Asim's business had a higher profit for the year; others incorrectly concentrated on higher sales or lower expenses. The other reason causing the difference was that Asim had a smaller capital employed.

(e)   This proved to be quite difficult for many candidates. Only monetary items are recorded in the financial statements, and, because of this, many important factors which affect the performance of a business are not included in those statements.

Question 5

(a)   Details about a business were provided. The purchases for the year had to be calculated by preparing the trading section of an income statement. Many candidates earned good marks. It is important to include a correct label for each item in the statement and avoid inappropriate abbreviations such as "CS" for "cost of sales" and "GP" for "gross profit". Items must be in the correct position in an income statement. For example, the opening inventory should appear before the purchases and the purchases returns should be deducted from the purchases. Some candidates incorrectly applied margin rather than mark-up. Despite calculating an incorrect gross profit, many were able to earn an own figure for the purchases.

(b)   The formula for the calculation of the rate of inventory turnover had to be stated. There were many correct responses. In questions like this it is important to write the words out in full.

(c)   Candidates were required to state two reasons why the rate of inventory turnover for a named business was lower than the average for that type of business. Most candidates correctly identified one of the reasons as holding a higher inventory. The other reason is a lower sales activity. Popular incorrect responses included reference to cost of sales and selling price.

(d)   The basis on which inventory should be valued had to be stated. The vast majority of candidates correctly stated "at the lower of cost and net realisable value".

(e)   Candidates had to name the accounting principle being applied by valuing inventory on the basis named in Part **(d)**. The vast majority of candidates correctly named prudence, but a few incorrectly suggested matching or realisation.

(f)   A table had to be completed to indicate the effect of overvaluing closing inventory. There was a wide range of responses.

(g)   A table had to be completed to indicate the effect of two proposals on the gross profit. There was a wide range of responses.

(h) Candidates were required to comment on the effects of a proposal to increase mark-up. Many candidates correctly stated that the profit would increase. Only a few went on to explain that if the selling price increased customers may go elsewhere. Common incorrect responses included decrease (or increase) in cost of sales.

Question 6

(a) It was expected that candidates would be able to state two differences between debentures and ordinary shares. Many candidates did earn full marks. Some candidates identified two features of debentures and two completely unrelated features of ordinary shares, and did not attempt a comparison. Some comments were imprecise. For example, a statement such as "debenture holders are paid first" was deemed to be too vague.

(b) Candidates were required to explain that the general reserve arises from annual transfers from the retained earnings. There was a vast variety of incorrect responses. A few candidates misinterpreted the question and tried to explain why the general reserve had increased.

(c) Two reasons why a limited company retains some profit each year were required. There were only a few acceptable responses. Most candidates seemed to incorrectly believe that a general reserve is represented by actual money. Common incorrect responses included ensuring that cash was available to purchase non-current assets, repay loans and pay dividends. It should have been explained that profits may be retained when there is not enough cash to pay a dividend or to ensure that cash is retained in the business rather than using it for the payment of a dividend.

(d) A table had to be completed to indicate where (if at all) six items would appear in the financial statements of a limited company. There was a wide range of answers, but most candidates earned at least three marks.

(e) Candidates were required to suggest one advantage to existing shareholders if a company raised extra finance from issuing debentures. There were some imprecise and vague answers such as "more dividend" which was not regarded as adequate. The responses provided by a few candidates were from the viewpoint of the company not the effect on the ordinary shareholders.

(f) Candidates were required to state one disadvantage to the ordinary shareholders if a company issued debentures. Once again, some answers were too vague such as "debentures get interest", and sometimes answers were from the viewpoint of the company.

(g) The formula for the calculation of the current ratio had to be stated. There were many correct responses. In questions like this it is important to write the words out in full.

(h) A table had to be completed to indicate the effect of five proposals on the current ratio of a company. There was a wide range of responses, but most candidates earned two or three marks.

ACCOUNTING

Paper 0452/22
Paper 22

Key messages

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Where appropriate, candidates are advised to provide supporting calculations. This ensures that some credit may be earned even though the final answer may be incorrect.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out all or part of their answer and provide another answer elsewhere on the question paper. It is very important that candidates indicate that this has been done. A note 'Please refer to Page…..' or 'Continued on page…..' would ensure that this additional work is not overlooked when the script is being marked.

Candidates should avoid the use of inappropriate abbreviations such as 'b/d' for 'balance' in ledger accounts and 'PFDD' for 'Provision for doubtful debts' in financial statements.

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of 'old' terminology such as 'stock' and 'net profit', etc.

It is important that candidates present their figures clearly and that that their written work is legible.

General comments

All the questions on the paper were compulsory and covered a wide range of syllabus topics. Most candidates attempted to answer all questions and were familiar with the correct format of financial statements.

It is important that candidates present accounting statements in the correct format and that appropriate descriptions are used in both financial statements and in ledger accounts. The written answers produced in some of the narrative questions were vague and lacked clarity. Accounting is a subject in which precision is extremely important.

All the day-to-day records of a business are based on double entry bookkeeping. Candidates must have a good knowledge of double entry and must be able to apply this to the various scenarios. In addition to the figures in a ledger account, attention must be given to the words entered in the details column and to the dates.

Comments on specific questions

Question 1

(a) Candidates were provided with a business document and asked to name the document, calculate the balance on the document, the percentage of the discount and to name the type of discount.

(i) The better-prepared candidates were able to correctly identify the business document as a statement of account. There were a variety of incorrect answers ranging from memo, debit note, invoice, bank statement, receipt, etc.

(ii) This was well answered with most candidates correctly identifying the amount of discount allowed being $335. Where candidates gave an incorrect answer, it was mostly due to errors in their calculations.

(iii) Most candidates calculated the percentage discount correctly. Where candidates made an error, it was because they based their percentage on the net amount paid rather than the gross amount.

(iv) Many candidates were unable to correctly identify the type of discount as 'cash discount'. The most common incorrect answers being trade discount, or discount received.

(b) Many candidates did not realise that a statement of account is not recorded in the accounting records. The most common incorrect answer was that the customer's account should be debited.

(c) Candidates were asked to refer to a transaction in a statement of account and name the document issued, the person issuing the document and entries that would be made in the customer's books. Generally, this was well answered with many candidates earning full marks. A common mistake was to think that W Jones was the supplier rather than the customer meaning the document issued and name of the person issuing the document were incorrectly stated.

(d) The question required candidates to name the book of prime (original) entry in which each of the two traders would record a returns transaction and this was answered very well. Some candidates did not realise that there was separate journal for returns and thought the entry would be recorded in the sales and purchases journals respectively. Also, there were some candidates who thought 'ledgers' were books of prime entry.

(e) Many candidates were able to correctly explain the meaning of 'bad debts' and 'bad debts recovered'. However, there were some candidates who confused trade receivables with trade payables. Also, for bad debts some candidates did not explain that the debt **would not** be paid or that amount owing **would not** be received. For 'bad debts recovered', candidates did not state that the debt was either a bad debt or a debt that had previously been written off, even though they stated that the customer had repaid some or all of the amount back.

(f) This question was answered well. Many candidates were able to identify two ways that a trader could reduce the risk of bad debts. However, candidates were not always specific enough in their responses and no marks could be awarded. Common errors included:

- not explaining that introducing a credit limit must apply to each individual customer for the policy to be effective
- suggesting a discount may be offered, but not stating or implying "cash discount"
- suggesting 'charging interest' but not clarifying that this would apply to late payments
- duplicating their response, i.e. 'reduce credit sales' and 'sell on a cash basis'
- incorrectly stating that extending the time allowed for the trade receivables to pay would reduce the risk of bad debts.

(g) Candidates were asked to explain how maintaining a provision for doubtful debts is an application of the principle of prudence. Most candidates recognised that this prevented profits from being overstated but many simply wrote 'prevent assets' from being overstated without specifying that it was current assets or trade receivables.

(h) Similar to part **(g)**, candidates were asked to explain how maintaining a provision for doubtful debts is an application of the principle of accruals/matching. The majority of candidates struggled to earn the marks on this part as many wrote about matching income and expenses but omitted 'for the year/same period'. Very few candidates mentioned that the provision for doubtful debts is an expense. Some candidates chose not to attempt it all.

(i) Most candidates successfully calculated the rate of provision for doubtful debts.

(j)   The question required candidates to prepare a provision for doubtful debts account. There was a clear division between candidates who were familiar with a provision for doubtful debts account, often scoring full marks and those candidates who were not so well prepared.

Common errors included:

- inclusion of the trade receivables amounts of $18 400 and $17 600 rather than provision for doubtful debts' balances
- incorrect dates and narratives
- opening balance entered as a debit balance

Question 2

(a)   This question required candidates to state the meaning of four terms and to provide an example of each.

For the better-prepared candidates there were some very high marks earned on this part. Candidates were better at providing good examples than defining the terms.

Many candidates lost marks for the explanation of capital expenditure as they included 'repairing'/'maintenance of' the non-current asset or expenses on non-current assets in their explanation.

Many candidates were clearly unfamiliar with the terms capital and revenue receipts, sometimes confusing these terms with source documents. For example, candidates defined a capital receipt as a piece of paper that you are given after you have purchased something in capital expenditure. Some candidates also gave examples of capital and revenue receipts rather than an explanation, e.g. 'sale of non-current assets' and 'income from sales'.

(b)   Four errors were listed and candidates were asked to indicate how each of the errors effected profit for the year and closing capital. Candidates were better at the effect on profit for the year than on the effect on closing capital.

(c)   This question proved difficult for many candidates. The question asked for an explanation as to why a cash book is both a book of prime entry and also part of the ledger. The well prepared candidates recognised that the cash book 'is part of the double entry system' and as such part of the ledger. However, very few candidates were able to explain why the cash book is considered a book of prime entry. Some candidates did make an attempt to explain this but found it difficult, i.e. 'it is the first record of money transactions'.

(d)   Candidates were provided with a cash book (bank columns) and a bank statement and asked to select the items needed to update the cash book. This was well attempted and candidates clearly understood the adjustments required. Most candidates earned at least two marks on this question with many earning the three marks available.

(e)   Using the cash book and bank statement candidates were asked to select the items that would appear in the bank reconciliation statement. This element proved more challenging than the previous one with many candidates incorrectly reversing their answers. A number of candidates earned three of the four marks but omitted the bank error or included it in the wrong column.

Question 3

(a)   Most candidates were able to correctly name an alternative method of depreciation that could be used to depreciate non-current assets. Where candidates lost marks it was because they were not precise in their response referring to the reducing balance method as either 'reducing' or 'diminishing' and omitting the word balance.

(b)   Candidates struggled with providing two reasons why the straight-line method of depreciation would not be a suitable method for depreciating hand tools. The better candidates earned at least one mark with comments focusing on materiality issues. Very few candidates recognised that hand tools do not depreciate by an equal amount each year or that a certain amount of tools are lost

each year, making straight-line depreciation an inappropriate method. Some candidates made general statements about straight-line and reducing balance depreciation methods without specific reference to hand tools. No marks could be awarded.

(c) & (d) The question required candidates to calculate depreciation for office machinery for two individual years.
A common mistake was to either calculate the total depreciation to date rather than just for the year in question or to show the net book value as the answer. A number of candidates charged depreciation for a whole year even though a machine had been operating for only part of the year.

(e) Using the answers to **(c)** and **(d)**, candidates were asked to prepare an office machinery account and the provision for depreciation account for the two year period. There were common mistakes in each of the two accounts:

Machinery account:

*   incorrect narratives for the purchase of the two new machines
*   entries for depreciation incorrectly included
*   the disposal entry wrongly described as XY Limited
*   an incorrect figure for disposal (rather than the original cost of the machine, candidates used the proceeds from sale)

Provision for depreciation account:

*   the entry for disposal omitted or an incorrect amount stated (the figure should have been the accumulated depreciation from parts **(c)** and **(d)** plus the opening balance of $6000)
*   incorrectly including the proceeds from sale
*   incorrect narrative for the income statement entries
*   annual transfers to income statement and balances carried down and brought down shown as individual figures for each machine rather than a single figure
*   incorrect dates or dates omitted

(f) The question required candidates to calculate the profit or loss on disposal of a piece of machinery. Many candidates found this difficult. Some candidates calculated the correct figure but did not state whether it was a profit or loss.

Other candidates simply deducted the sale proceeds, $6000, from the original cost, $15000, and ignored any accumulated depreciation and the effect of this on the profit/loss on sale. Candidates could have improved their performance on this element by making sure they read the requirement carefully and answered the question that was being asked of them.

Question 4

(a) Candidates were provided with the profit for the year and asked to complete a statement of changes in equity. Candidates had to insert the appropriate items in a partially completed statement. Mistakes included dividends incorrectly deducted from the ordinary share capital and the transfer to general reserve deducted from the total column rather than from the retained earnings.

(b) Candidates were provided with a list of balances and asked to prepare a statement of financial position. This element provided an opportunity for many candidates to earn some high marks with the better-prepared candidates earning full marks in many instances.

Common errors included:

*   the net book value for the non-current assets was shown without the required cost and accumulated depreciation columns
*   the provision for doubtful debts was either omitted or the trade receivables shown as a net figure after deducting the provision for doubtful debts (it should be shown on the line directly below trade receivables, with suitable wording, and deducted from trade receivables)
*   the provision for doubtful debts was included in current liabilities,
*   the bank overdraft was included it in current assets

- the bank loan was included in non-current liabilities
- included a single figure of $241 000 for the capital and reserves section rather than showing the individual elements

(c) Candidates were asked to state two disadvantages to existing ordinary shareholders of raising additional funds by issuing debentures. Most candidates earned at least one mark on this section. They knew that, because debenture interest had to be paid, there would be less profit available for distribution to the ordinary shareholders as dividends. However, some candidates incorrectly thought that the dividend payment would be delayed because debenture holders came first.

(d) Candidates were asked for two disadvantages should additional funds be raised by issuing more ordinary shares. Again, most candidates earned at least one mark and the better-prepared candidates managed to earn full marks. However, the answers provided by some candidates related to preference shares rather than ordinary shares.

Question 5

(a) Candidates were asked to prepare an income statement using the information provided. There were some very good answers but there were also some very poor attempts. Common mistakes included:

- adding an imaginary opening inventory
- adding rather than subtracting the closing inventory to arrive at cost of sales
- purchases described incorrectly as credit suppliers
- no adjustment to the purchases figure for the amount owing to credit suppliers
- gross profit calculation based on a quarter of the costs of sales figure rather than a third
- no words to accompany the cost of sales or gross profit figures
- the figure for capital introduced used incorrectly as revenue
- rent and insurance figures not adjusted for prepaid amounts
- loan interest and depreciation on fixture and fittings included for a full year
- loan interest and depreciation on fixture and fittings omitted
- abbreviating the description for the depreciation such as "P for D" and not naming the asset to which the depreciation related
- drawings and shop fixtures and fittings incorrectly included in the expenses
- profit for the month incorrectly referred to as a surplus or profit for the 'year'

(b) Most candidates were able to correctly state the formula for calculating the quick ratio.

(c) A table was presented to the candidates asking them to indicate the effect on the quick ratio. This question provided good differentiation with only the well-prepared candidates earning full marks. The majority of candidates earned either two or three marks of the five available.

(d) Candidates were asked to state which of the proposals listed in (c) would affect the quick ratio but not the current ratio.

Most candidates correctly identified proposal number 6 but only a few candidates were able to adequately explain why. Explanations tended to focus on the fact that the current ratio includes inventory in the calculation but the quick ratio does not.
Very few candidates realised that a reduction in closing inventory would be counterbalanced by the increase in cash and so have no effect on the current ratio.

(e) The final part of this question asked candidates to explain two factors that the owner of the business should consider when comparing the business performance with that of another business.

Many candidates discussed comparing Aretta's business with a business in a similar trade despite the fact that this information was provided in the question. Some candidates also suggested how Aretta could improve her business rather than explaining the factors that she should consider when comparing her business performance with that of the other business.
The best candidates developed their answers often giving examples relating to the business in question.

ACCOUNTING

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Provision for depreciation account:

* the entry for disposal omitted or an incorrect amount stated (the figure should have been the accumulated depreciation from parts **(c)** and **(d)** plus the opening balance of $6000)
* incorrectly including the proceeds from sale
* incorrect narrative for the income statement entries
* annual transfers to income statement and balances carried down and brought down shown as individual figures for each machine rather than a single figure
* incorrect dates or dates omitted

(f) The question required candidates to calculate the profit or loss on disposal of a piece of machinery. Many candidates found this difficult. Some candidates calculated the correct figure but did not state whether it was a profit or loss.

Other candidates simply deducted the sale proceeds, $6000, from the original cost, $15000, and ignored any accumulated depreciation and the effect of this on the profit/loss on sale. Candidates could have improved their performance on this element by making sure they read the requirement carefully and answered the question that was being asked of them.

Question 4

(a) Candidates were provided with the profit for the year and asked to complete a statement of changes in equity. Candidates had to insert the appropriate items in a partially completed statement. Mistakes included dividends incorrectly deducted from the ordinary share capital and the transfer to general reserve deducted from the total column rather than from the retained earnings.

(b) Candidates were provided with a list of balances and asked to prepare a statement of financial position. This element provided an opportunity for many candidates to earn some high marks with the better-prepared candidates earning full marks in many instances.

Common errors included:

* the net book value for the non-current assets was shown without the required cost and accumulated depreciation columns
* the provision for doubtful debts was either omitted or the trade receivables shown as a net figure after deducting the provision for doubtful debts (it should be shown on the line directly below trade receivables, with suitable wording, and deducted from trade receivables)
* the provision for doubtful debts was included in current liabilities,
* the bank overdraft was included it in current assets

- the bank loan was included in non-current liabilities
- included a single figure of $241 000 for the capital and reserves section rather than showing the individual elements

(c) Candidates were asked to state two disadvantages to existing ordinary shareholders of raising additional funds by issuing debentures. Most candidates earned at least one mark on this section. They knew that, because debenture interest had to be paid, there would be less profit available for distribution to the ordinary shareholders as dividends. However, some candidates incorrectly thought that the dividend payment would be delayed because debenture holders came first.

(d) Candidates were asked for two disadvantages should additional funds be raised by issuing more ordinary shares. Again, most candidates earned at least one mark and the better-prepared candidates managed to earn full marks. However, the answers provided by some candidates related to preference shares rather than ordinary shares.

Question 5

(a) Candidates were asked to prepare an income statement using the information provided. There were some very good answers but there were also some very poor attempts. Common mistakes included:

- adding an imaginary opening inventory
- adding rather than subtracting the closing inventory to arrive at cost of sales
- purchases described incorrectly as credit suppliers
- no adjustment to the purchases figure for the amount owing to credit suppliers
- gross profit calculation based on a quarter of the costs of sales figure rather than a third
- no words to accompany the cost of sales or gross profit figures
- the figure for capital introduced used incorrectly as revenue
- rent and insurance figures not adjusted for prepaid amounts
- loan interest and depreciation on fixture and fittings included for a full year
- loan interest and depreciation on fixture and fittings omitted
- abbreviating the description for the depreciation such as "P for D" and not naming the asset to which the depreciation related
- drawings and shop fixtures and fittings incorrectly included in the expenses
- profit for the month incorrectly referred to as a surplus or profit for the 'year'

(b) Most candidates were able to correctly state the formula for calculating the quick ratio.

(c) A table was presented to the candidates asking them to indicate the effect on the quick ratio. This question provided good differentiation with only the well-prepared candidates earning full marks. The majority of candidates earned either two or three marks of the five available.

(d) Candidates were asked to state which of the proposals listed in (c) would affect the quick ratio but not the current ratio.

Most candidates correctly identified proposal number 6 but only a few candidates were able to adequately explain why. Explanations tended to focus on the fact that the current ratio includes inventory in the calculation but the quick ratio does not.
Very few candidates realised that a reduction in closing inventory would be counterbalanced by the increase in cash and so have no effect on the current ratio.

(e) The final part of this question asked candidates to explain two factors that the owner of the business should consider when comparing the business performance with that of another business.

Many candidates discussed comparing Aretta's business with a business in a similar trade despite the fact that this information was provided in the question. Some candidates also suggested how Aretta could improve her business rather than explaining the factors that she should consider when comparing her business performance with that of the other business.
The best candidates developed their answers often giving examples relating to the business in question.