

# ACCOUNTING

---

Paper 0452/11  
Paper 11

## Key messages

Candidates should always have a guess at multiple choice questions and never offer 'no response'.

As always, when preparing ledger accounts labels such as BBD and BD are unacceptable. Ideally balance b/d or c/d should be written.

Labelling items is extremely important when preparing income statements or statements of financial position. Again, abbreviations such as COGS for cost of goods sold or GP and NP for gross profit and profit are not acceptable.

Candidates should always indicate where they may have re-written an answer in a different section of the answer booklet or on additional pages.

## General comments

The paper was well attempted by a number of candidates. The number of candidates not attempting questions is reducing and candidates generally completed the paper. However, the main causes for candidates not being awarded marks relates to the key messages above and will be commented on below. The questions which were particularly well attempted were **Question 3(c)** where a large number of candidates were awarded full marks. However, many candidates performed positively in **Question 4(a)** with a large number of candidates confident in applying a mark up to a calculated cost of goods and then extracting the figure for revenue. Marks lost on this question were mainly for not treating the accruals for shop supplies correctly.

## Comments on specific questions

### Question 1

This question comprised ten multiple choice items. There were only a few instances where candidates made no attempt at a particular answer. It is mentioned each time, but worth repeating, never leave an answer blank in this type of question. A guess may be correct and gain a mark.

Specific questions caused more difficulty than others. They are discussed below.

- (g) This is a case where candidates must learn the features of each accounting objective.
- (h) Candidates sometimes seemed unsure as to whether the question concerned rent receivable or rent payable
- (j) A question involving a calculation. The formula for calculating inventory turnover must be thoroughly practised.

### Question 2

- (a) A number of candidates achieved high marks for this question. However some candidates failed to give the complete answer by omitting the word 'journal', merely stating 'purchases returns' or 'general'. A number of candidates seemed confused with the contra entry and thought this occurred in the cashbook.

- (b) On the whole this was well answered. Some candidates found the contra entry challenging. However, most candidates appreciated 'no entry' for the trade discount.
- (c) (i) In general candidates understood the terms. In some cases it was not made clear that the debt would never be paid, stating the debt remained unpaid at the end of the period.
- (ii) Again very positive responses to this question. Weaker candidates did not make it clear that the debt had been written off.
- (iii) Many candidates gave an excellent answer in saying it was an 'estimate' of debts that could become unpaid. Some candidates thought it was an amount of money set aside for bad debts rather than a 'provision'.
- (d) A number of candidates did extremely well with both parts of this question. However, sometimes marks were lost due to the incorrect narrative for the payment from Ben i.e. bank. Some candidates failed to make the transfer from Ben's account to the bad debts account. Most candidates did close the account taking the balance to the income statement. A small number of candidates carried down a balance to the following year.
- (e) Some candidates achieved high marks for this question. Some candidates, having calculated the correct figures completely, then reversed the entries. A number of candidates did not calculate the required 3 per cent and entered the opening and closing trade receivables. Some candidates correctly calculated \$384 but then entered this as the amount to transfer to the income statement, which resulted in a closing balance of \$789. Weaker candidates included the cash received and/or the bad debt.

### Question 3

- (a) Many candidates provided two valid reasons for preparing a trail balance. Some candidates lost marks by not being precise enough. Common answers referred to finding errors, preventing fraud or accuracy of the ledgers.
- (b) On the whole, whilst candidates could correctly name three types of error that are not revealed in the trial balance they were less able to give examples with many just explaining the type of error. Where examples were provided many only gave one side of an entry. The most positive responses came in the example of an error of commission naming errors in posting to suppliers' accounts.
- (c) Many candidates scored highly in this question. The most frequent error was in selecting the correct inventory for the trial balance and commonly the closing entry was entered which led to a suspense account. Other common errors were the reversing of the rent payable and the commission receivable.
- (d) Well prepared candidates scored well with this question. Some candidates were not able to distinguish between capital and revenue expenditure. The delivery charge was the most common incorrectly identified and even when the type of expenditure was correct the reason for that classification was commonly too vague. Reasons for fuel and insurance being revenue expenditure were also not precise enough at times.

### Question 4

- (a) Many candidates tackled this question very well gaining full marks. Some candidates did not seem to realise that there was only information provided to prepare an income statement up to gross profit. It was common to see purchases left unadjusted and the opening and closing amounts owed treated as expenditure. However, many that did use the adjustments to purchases did so incorrectly. Many candidates could apply the 25 per cent mark up to their calculated cost of sales and subsequently extracted revenue. Weaker responses calculated a revenue figure lower than cost of sales even though a profit figure was calculated.
- (b) There were some very good attempts at this question though very few candidates gained full marks. The treatment of the insurance caused some confusion as only a small number of candidates recognised that it would affect all three statements. The most common error was the

inclusion of the purchase of sport equipment for \$3500 in the statement of financial position. Many candidates lost marks by including items in more than one statement when this was not applicable.

- (c) Well prepared candidates gave two very relevant ways to reduce the overdraft, the most common being 'increase subscription' and 'reduce expenses'. Some candidates suggested 'more fundraising activities' to reduce the overdraft despite being asked for alternatives to this method. Many suggested 'increase profit' without identifying a means of doing so. Some candidates suggested ways which were not relative to a club (for example, reduce drawings or introduce more capital).

### Question 5

- (a) This question was handled very well in the majority of cases. Many candidates achieved full marks and other high scoring candidates lost marks not through incorrect calculations but by incorrect labelling of items. It was fairly common to see revenue for fees and lack of detail for the depreciation of non-current assets.

Common errors among weaker responses included incorrectly adjusting the fees and commission in the income. Whilst the calculation of depreciation of office fixtures was often correct, the depreciation of the motor vehicle was often seen as \$3500 (\$17500 @ 20 per cent) or \$6300 was entered as an expense on its own. The calculation for rent and rates was clearly problematic for many candidates and candidates must be encouraged to show all their workings to have the opportunity of gaining marks. The adjustment for personal use was often carried out on the \$7750 or having calculated a figure for rent and rates charged 25 per cent to the income statement. Some candidates lost the mark for profit/loss by labelling it surplus/deficit.

Weaker responses presented the figures in the form of a trial balance or statement of financial position.

- (b) Some responses failed to include the personal rent and rates in the drawings. However, the majority closed the drawings account and transferred the balance to the debit of the capital account. Generally most candidates treated the profit/loss from (a) correctly and subsequently brought down the balance to the following year.
- (c) Sometimes when candidates could identify three relevant considerations, these were not developed. Although the information provided related to a bank loan, many candidates gave non-financial suggestions for example location or labour supply.

### Question 6

- (a) This question was generally well attempted by the majority of candidates.
- (b) Some candidates performed very well with this question and were awarded high marks. However, a common error was with the treatment of the interim dividend. Some candidates made the adjustments on the share capital rather than on the retained earnings. Candidates must also be encouraged when presenting the table that calculations are checked horizontally and vertically.
- (c) Many candidates included the final dividend for 2017 (\$8000) in the numerator so it was common to find an answer of 7 per cent. Weaker responses used various combinations for the denominator, such as equity.
- (d) and (e) Generally these questions were answered well with many candidates confident in the features of both preference shares and debentures. Many candidates, however, stated that both categories receive a fixed percentage of the profit each year rather than a fixed dividend rate or a fixed interest rate.
- (e) Some candidates could identify the effect on non-current liabilities and working capital but struggled with the effect on equity and profit. A small number of candidates, despite being given the example, placed ticks in each of the boxes rather than identifying the amounts.

# ACCOUNTING

---

Paper 0452/12  
Paper 12

## Key messages

As always, it is essential to lay down a good grounding in the principles of double entry including the use of journals and ledgers. Other general points to make include the importance of clear narratives and that in journal entries and ledger accounts it is the account name that is rewarded and not the action being performed. If candidates answer elsewhere in the paper they should clearly indicate this and state the page where the alternative attempt is. Clear handwriting is important and instead of overwriting on an error it is better to cross out and attempt elsewhere. Workings are essential on this paper. Multiple choice answers should be annotated in the boxes provided and not next to the actual 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 as always some exceptional scripts where candidates had clearly been well-prepared.

## Comments on specific questions

### Question 1

- (c) This question concerned the valuation of premises and the correct answer was money measurement. Realisation is linked to selling goods rather than non-current assets. Just because identical premises were sold for a certain amount does not mean that this is going to happen to another business.
- (f) A contra occurs when a business is both a customer and a supplier. It is the smallest amount owed between the two businesses which is used as the off-set and in this case it was credit \$260. The remaining \$80 will need settling by bank or cash.
- (g) The key to this question is that the income statement needs to show what should have been paid for advertising expenses and not the actual payment. The account began with a credit balance of \$100 so an accrual owed at the start of the year which needed subtracting from the actual amount paid of \$2830. There was then a prepayment of \$45 which needed subtracting too as it is for the next financial year which left the amount \$2685.
- (j) In this question it was important to focus on the fact that it was the bank statement which did not include the cheques not presented and the amounts not credited, and not the cash book. So starting with an overdraft of \$250 the \$96 is added and then the \$183 is subtracted to give an overdraft of \$337 and because it is from the point of view of the bank it is \$337 debit.

### Question 2

- (a) Most candidates gained some marks on this question. Stronger responses frequently gained 5 or 6 marks. Some responses incorrectly thought the cost of delivery for new shop fittings was a revenue expense. Weaker candidates frequently confused expenditure and receipts. The most common errors were identifying the bank loan as a revenue receipt and the delivery charges on shop fittings as revenue expenditure.
- (b) Again, most candidates gained some marks on this, with stronger responses gaining between 6 and 9 marks. Common errors included referring to purchases rather than stationery, referring to Nabil rather than capital, reference to business bank or office cash instead of bank and cash and confusion in respect of the bank transfer such as incorrect amounts, reversal or use of discount allowed instead of discount received.
- (c) Almost all candidates gained marks on this question. Stronger responses frequently gained 6 marks, illustrating a clear understanding of double entry. Weaker responses were still able to pick up some marks. Common errors were to show bank overdraft and bank loan as a debit rather than credit.

### Question 3

- (a) Weaker responses did not know to use the account names and instead described the transaction. Other common errors included reference to dishonoured cheque instead of bank, reference to purchases rather than sales, complete reversal and including a balance c/d when it was stated that the balance should be treated as a bad debt.
- (b) Some issues included using the narrative bad debt instead of Safiya and using transfer to income statement which is the action rather than the account name of income statement. Some candidates simply closed the account with the \$674 and because it was labelled income statement they were able to gain 1 mark.
- (c) (i) Stronger responses gained marks here while others did not, and some did not respond at all. Some candidates gave long and vague descriptions and discussed the changes in the provision rather than the balances. The wrong accounts were sometimes identified with trade receivables and income statement often being stated, and then debit and credit were sometimes the wrong way round.
  - (ii) Stronger responses usually gained two marks from concise answers such as the \$130 represents a decrease in provision which will be transferred to the income statement as income. Common faults included thinking the provision had increased and that it represented an expense or reference to bad debts. The question was specifically about the scenario so candidates need to make sure they carefully read what is asked of them rather than providing generic answers.
- (e) Many candidates gave a general definition of the accruals concept without reference to the question. Stronger responses gained two marks. It is important that the candidates link the principles to the question asked rather than just state the general definition.
- (f) This was generally well answered with the majority of candidates gaining 2 marks. Sometimes trade discounts were confused with cash discounts. Some candidates thought that money was being lent rather than goods being supplied on credit. A few candidates answered it from the other way with how Hamila could prevent having bad debts herself.

#### Question 4

- (a) There was a wide range of marks awarded here and stronger responses frequently gained 5 marks. A mark was lost if the candidate labelled the loss as a profit or gave no label other than income statement particularly if they had produced a ledger account. It is good practice to complete such an answer using a ledger account but then the final answer needs extracting with a profit or loss label alongside. Some candidates used the straight line method instead of reducing balance. Others continued to depreciate into the 3rd year. It is important that all workings are shown in such answers.
- (b) In journal entries it is important for candidates to remember that it is the account name which is debited or credited and not the action. Common errors included using the purchases account instead of office equipment account and naming it the 'new' office equipment account. An example of a concise and appropriate narrative would be 'purchase of office equipment on credit'. Many candidates omitted the 'on credit' part which was needed for the mark. Some did not even attempt the narrative.
- (c) (i) Able candidates usually gained 2 marks with few gaining 1 mark as they either knew the process or got it entirely wrong sometimes by using a percentage instead.
- (ii) Some responses included the wrong starting figures for the cost of asset and gained no mark.
- (d) Stronger answers referred to correct accounts and had a precise narrative for example, depreciation on office equipment transferred to the income statement. There was often a reversal of entries or incorrect figures used. Marks were often lost for not including 'office equipment' in the account name and in the narrative. For the debit entry sometimes the action was given rather than the account. The credit entry needed provision at the start which was often missed. It is also important not to just state depreciation but to link it to the relevant non-current asset.
- (e) Stronger responses frequently gained 9 or 10 marks and weaker responses gained 0–3 marks. Reasons for loss of marks included: omission of entries in particular the taxi fare and parcel post which needed placing in the relevant analysis columns, poor narratives such as refund rather than cleaner refund, omitting cash/bank in order to restore the imprest amount, not totalling total columns or analysis columns, confusing balance b/d and c/d and reference to imprest rather than cash or bank. Sometimes the cleaner refund was shown as a negative figure in the payments section which was not rewarded. There were some errors when calculating the balance c/d and then the top up amount required. It is important to name trade payables such as Kelly in this case and not just refer to trade payables. Also there is a need to be precise about the actual purchase involved as some stated printer instead of printer paper.

#### Question 5

- (a) This was generally answered well and candidates understood the rationale behind interest on capital. For **5(a)**, **(b)** and **(c)** some wrote 'to avoid disagreement' for all three which was not rewarded.
- (b) Again, the majority of candidates were well aware that excessive drawings could cause problems to a partnership so was to be avoided.
- (c) The most common error here was for candidates to state it was because Mostafa had contributed more capital. This is rewarded by earning more interest on capital whereas a salary is for additional work commitments or to compensate for leaving a salaried position to start the partnership.
- (d) Stronger responses gained 8 marks and weaker responses gained fewer marks usually due to an incorrect format and the inclusion of the capital account balances or drawings. The most common error concerned Mostafa's salary as there was a change during the accounting year which needed adjusting. Other errors included: calculating profit or loss shares without starting with the profit for the year, deducting interest on drawings instead of adding and then adding interest on capital or salary instead of deducting. The final appropriation of profit for the year must be labelled as either share of profit or loss depending on the answer and not as both.
- (e) Candidates seemed familiar with the entries for a current account and complete reversals were rare with many candidates gaining at least 4 marks. However, marks were lost for: lack of dates

particularly the year 2019, inclusion of entries related to Salma which meant that the balance b/d own figure was lost and showing a share of loss as a negative on the credit side. It was pleasing to see that most candidates did bring down the balance on 1 May 2019.

### Question 6

- (a) Most candidates gained some marks with stronger responses gaining 6–8 marks. Most candidates identified the correct statements for recording debenture interest. It was pleasing to see that candidates did not just list all 3 options in each box.
- (b) A range of marks was awarded here with the stronger responses often gaining 4 or 5 marks.
- (c) Answers included: less dividends likely due to the interest being paid to debenture holders or that they may be received later. Incorrect answers thought that debenture holders had voting rights or control. Some thought that shareholders received interest or shares rather than dividends as their reward for investing.
- (d) and (e) Candidates answered these questions reasonably well. Marks were lost because of the following: incorrect figures used and/or incorrect rounding. Candidates must round according to the instructions in the question which in this case was to 2 decimal places.
- (f) Some weaker responses repeated the question in their answer or discussed what the current ratio included rather than what the quick ratio didn't. The key aspect was that the acid test ratio does not include inventory and then for the 2nd mark why that is. Just stating that inventory is not very liquid was insufficient and candidates needed to explain that it takes time to find a buyer and then collect the money.
- (g) Most candidates gained some marks and stronger responses usually gained 4–6 marks.
- (h) This was generally well answered however, some candidates lost a mark because their answers were too similar. For example, not being able to pay 2 examples of day to day expenses. A few candidates tried to link their answer to profit which was incorrect as working capital is not necessarily a reflection of profitability.

# ACCOUNTING

---

Paper 0452/12  
Paper 13

## Key messages

As always, it is essential to lay down a good grounding in the principles of double entry including the use of journals and ledgers. Other general points to make include the importance of clear narratives and that in journal entries and ledger accounts it is the account name that is rewarded and not the action being performed. If candidates answer elsewhere in the paper they should clearly indicate this and state the page where the alternative attempt is. Clear handwriting is important and instead of overwriting on an error it is better to cross out and attempt elsewhere. Workings are essential on this paper. Multiple choice answers should be annotated in the boxes provided and not next to the actual 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 as always some exceptional scripts where candidates had clearly been well-prepared.

## Comments on specific questions

### Question 1

- (c) This question concerned the valuation of premises and the correct answer was money measurement. Realisation is linked to selling goods rather than non-current assets. Just because identical premises were sold for a certain amount does not mean that this is going to happen to another business.
- (f) A contra occurs when a business is both a customer and a supplier. It is the smallest amount owed between the two businesses which is used as the off-set and in this case it was credit \$260. The remaining \$80 will need settling by bank or cash.
- (g) The key to this question is that the income statement needs to show what should have been paid for advertising expenses and not the actual payment. The account began with a credit balance of \$100 so an accrual owed at the start of the year which needed subtracting from the actual amount paid of \$2830. There was then a prepayment of \$45 which needed subtracting too as it is for the next financial year which left the amount \$2685.
- (j) In this question it was important to focus on the fact that it was the bank statement which did not include the cheques not presented and the amounts not credited, and not the cash book. So starting with an overdraft of \$250 the \$96 is added and then the \$183 is subtracted to give an overdraft of \$337 and because it is from the point of view of the bank it is \$337 debit.



### Question 2

- (a) Most candidates gained some marks on this question. Stronger responses frequently gained 5 or 6 marks. Some responses incorrectly thought the cost of delivery for new shop fittings was a revenue expense. Weaker candidates frequently confused expenditure and receipts. The most common errors were identifying the bank loan as a revenue receipt and the delivery charges on shop fittings as revenue expenditure.
- (b) Again, most candidates gained some marks on this, with stronger responses gaining between 6 and 9 marks. Common errors included referring to purchases rather than stationery, referring to Nabil rather than capital, reference to business bank or office cash instead of bank and cash and confusion in respect of the bank transfer such as incorrect amounts, reversal or use of discount allowed instead of discount received.
- (c) Almost all candidates gained marks on this question. Stronger responses frequently gained 6 marks, illustrating a clear understanding of double entry. Weaker responses were still able to pick up some marks. Common errors were to show bank overdraft and bank loan as a debit rather than credit.

### Question 3

- (a) Weaker responses did not know to use the account names and instead described the transaction. Other common errors included reference to dishonoured cheque instead of bank, reference to purchases rather than sales, complete reversal and including a balance c/d when it was stated that the balance should be treated as a bad debt.
- (b) Some issues included using the narrative bad debt instead of Safiya and using transfer to income statement which is the action rather than the account name of income statement. Some candidates simply closed the account with the \$674 and because it was labelled income statement they were able to gain 1 mark.
- (c) (i) Stronger responses gained marks here while others did not, and some did not respond at all. Some candidates gave long and vague descriptions and discussed the changes in the provision rather than the balances. The wrong accounts were sometimes identified with trade receivables and income statement often being stated, and then debit and credit were sometimes the wrong way round.  
(ii) Stronger responses usually gained two marks from concise answers such as the \$130 represents a decrease in provision which will be transferred to the income statement as income. Common faults included thinking the provision had increased and that it represented an expense or reference to bad debts. The question was specifically about the scenario so candidates need to make sure they carefully read what is asked of them rather than providing generic answers.
- (e) Many candidates gave a general definition of the accruals concept without reference to the question. Stronger responses gained two marks. It is important that the candidates link the principles to the question asked rather than just state the general definition.
- (f) This was generally well answered with the majority of candidates gaining 2 marks. Sometimes trade discounts were confused with cash discounts. Some candidates thought that money was being lent rather than goods being supplied on credit. A few candidates answered it from the other way with how Hamila could prevent having bad debts herself.

#### Question 4

- (a) There was a wide range of marks awarded here and stronger responses frequently gained 5 marks. A mark was lost if the candidate labelled the loss as a profit or gave no label other than income statement particularly if they had produced a ledger account. It is good practice to complete such an answer using a ledger account but then the final answer needs extracting with a profit or loss label alongside. Some candidates used the straight line method instead of reducing balance. Others continued to depreciate into the 3rd year. It is important that all workings are shown in such answers.
- (b) In journal entries it is important for candidates to remember that it is the account name which is debited or credited and not the action. Common errors included using the purchases account instead of office equipment account and naming it the 'new' office equipment account. An example of a concise and appropriate narrative would be 'purchase of office equipment on credit'. Many candidates omitted the 'on credit' part which was needed for the mark. Some did not even attempt the narrative.
- (c) (i) Able candidates usually gained 2 marks with few gaining 1 mark as they either knew the process or got it entirely wrong sometimes by using a percentage instead.
- (ii) Some responses included the wrong starting figures for the cost of asset and gained no mark.
- (d) Stronger answers referred to correct accounts and had a precise narrative for example, depreciation on office equipment transferred to the income statement. There was often a reversal of entries or incorrect figures used. Marks were often lost for not including 'office equipment' in the account name and in the narrative. For the debit entry sometimes the action was given rather than the account. The credit entry needed provision at the start which was often missed. It is also important not to just state depreciation but to link it to the relevant non-current asset.
- (e) Stronger responses frequently gained 9 or 10 marks and weaker responses gained 0–3 marks. Reasons for loss of marks included: omission of entries in particular the taxi fare and parcel post which needed placing in the relevant analysis columns, poor narratives such as refund rather than cleaner refund, omitting cash/bank in order to restore the imprest amount, not totalling total columns or analysis columns, confusing balance b/d and c/d and reference to imprest rather than cash or bank. Sometimes the cleaner refund was shown as a negative figure in the payments section which was not rewarded. There were some errors when calculating the balance c/d and then the top up amount required. It is important to name trade payables such as Kelly in this case and not just refer to trade payables. Also there is a need to be precise about the actual purchase involved as some stated printer instead of printer paper.

#### Question 5

- (a) This was generally answered well and candidates understood the rationale behind interest on capital. For **5(a)**, **(b)** and **(c)** some wrote 'to avoid disagreement' for all three which was not rewarded.
- (b) Again, the majority of candidates were well aware that excessive drawings could cause problems to a partnership so was to be avoided.
- (c) The most common error here was for candidates to state it was because Mostafa had contributed more capital. This is rewarded by earning more interest on capital whereas a salary is for additional work commitments or to compensate for leaving a salaried position to start the partnership.
- (d) Stronger responses gained 8 marks and weaker responses gained fewer marks usually due to an incorrect format and the inclusion of the capital account balances or drawings. The most common error concerned Mostafa's salary as there was a change during the accounting year which needed adjusting. Other errors included: calculating profit or loss shares without starting with the profit for the year, deducting interest on drawings instead of adding and then adding interest on capital or salary instead of deducting. The final appropriation of profit for the year must be labelled as either share of profit or loss depending on the answer and not as both.
- (e) Candidates seemed familiar with the entries for a current account and complete reversals were rare with many candidates gaining at least 4 marks. However, marks were lost for: lack of dates

particularly the year 2019, inclusion of entries related to Salma which meant that the balance b/d own figure was lost and showing a share of loss as a negative on the credit side. It was pleasing to see that most candidates did bring down the balance on 1 May 2019.

### Question 6

- (a) Most candidates gained some marks with stronger responses gaining 6–8 marks. Most candidates identified the correct statements for recording debenture interest. It was pleasing to see that candidates did not just list all 3 options in each box.
- (b) A range of marks was awarded here with the stronger responses often gaining 4 or 5 marks.
- (c) Answers included: less dividends likely due to the interest being paid to debenture holders or that they may be received later. Incorrect answers thought that debenture holders had voting rights or control. Some thought that shareholders received interest or shares rather than dividends as their reward for investing.
- (d) and (e) Candidates answered these questions reasonably well. Marks were lost because of the following: incorrect figures used and/or incorrect rounding. Candidates must round according to the instructions in the question which in this case was to 2 decimal places.
- (f) Some weaker responses repeated the question in their answer or discussed what the current ratio included rather than what the quick ratio didn't. The key aspect was that the acid test ratio does not include inventory and then for the 2nd mark why that is. Just stating that inventory is not very liquid was insufficient and candidates needed to explain that it takes time to find a buyer and then collect the money.
- (g) Most candidates gained some marks and stronger responses usually gained 4–6 marks.
- (h) This was generally well answered however, some candidates lost a mark because their answers were too similar. For example, not being able to pay 2 examples of day to day expenses. A few candidates tried to link their answer to profit which was incorrect as working capital is not necessarily a reflection of profitability.

# ACCOUNTING

---

Paper 0452/21  
Paper 21

## Key messages

Candidates should 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. A factually correct statement, which is not the answer to the question being asked, cannot be awarded marks.

Where appropriate, candidates are advised to provide supporting calculations. This ensures that some of the available marks 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' and 'BDD' for 'balance' in ledger accounts and 'PDD' for 'provision or doubtful debts' in a statement of financial position.

## 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.

The written answers produced in some of the narrative questions were vague and lacked clarity.

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. When preparing ledger accounts it is important for candidates to pay attention to the words entered in the details column and dates as well as the amounts.

## Comments on specific questions

### Question 1

- (a) (i) Candidates were required to record transactions in a petty cash book. Many candidates earned high marks. Common errors were:
- omission of the restoration of the imprest at the beginning of the month
  - inclusion of cash book items
  - incorrect wording in the details column such as 'bought stationery'
  - not entering the payments in both the total paid and the appropriate analysis column
- (ii) A three column cash book had to be completed. Once again, many candidates earned good marks. Common errors were:
- omission of the restoration of the petty cash imprest
  - incorrect calculation of the cash discount allowed and received
  - inclusion of petty cash book items
  - incorrect wording in the details columns such as 'tenant' in lieu of 'rent receivable'
  - not appreciating that the cash column cannot have a credit balance

- (b) Using information provided and the balance of the cash book prepared in **part (a)**, candidates were required to prepare a bank reconciliation statement. This presented a challenge to many candidates. The overdrawn bank balance in the cash book and the overdraft shown on the bank statement were frequently shown as positive balances. Incorrect labelling and treatment of the amounts not credited and the cheques not presented also resulted in marks being forfeited. A few candidates incorrectly presented the statement in the form of a ledger account, which was not acceptable.
- (c) 1 Candidates were required to state, giving a reason, whether the financial statements would be affected by the receipt of an order for goods to be supplied in the following financial year. Applying the accounting principle of realisation, this would not be included in the current year's financial statements. Only a very few candidates were able to provide satisfactory answers.
- 2 Candidates were required to state, giving a reason whether the financial statements would be affected by a decision to close the business one month after the end of the financial year. Applying the accounting principle of going concern, this would be taken into consideration. Only a very few candidates were able to provide satisfactory answers.

## Question 2

- (a) Data was provided about documents exchanged by two traders. Candidates were required to name the person issuing three of these documents and to state the reason for the issue of each of these documents. Many candidates were able to correctly name the sender of each document, though a few answers incorrectly referred to 'supplier' and 'customer'. Many candidates were also able to provide an acceptable reason for the issue of each document. A few incorrectly referred to 'ask for an allowance' for the debit note and 'grant an allowance' for the credit note with no mention that the allowance was for goods returned. Some candidates understood that a statement of account shows the transactions between the two traders, but they did not link this to a particular month and some even referred to the transactions for the year.
- (b) Using the data at the beginning of the question, candidates were required to prepare the account of the supplier in the ledger of the customer. There were many wholly correct responses. Common errors were:
- entering the purchases and the returns at the list price
  - including extraneous items such as the debit note
  - using incorrect details such as document names instead of the account where the double entry is made
  - reversing the account
  - including completely unrelated data provided in the next section of the question
- (c) The trade receivables collection period had to be calculated. There were many correct answers. A number of candidates did not multiply by 365, some did not round up the answer to the next whole day and some did not include the word 'days' in their answer.
- (d) Following on from **part (c)**, one advantage to the trader of the change in the trade receivables collection period was required. Many candidates correctly referred to the possibility of charging interest and not having to allow cash discount. A few incorrectly referred to the long credit period attracting customers.
- (e) Following on from **part (c)**, one disadvantage to the trader of the change in the trade receivables collection period was required. Most candidates correctly commented on the adverse effect on cash flow.
- (f) The trade payables payment period had to be calculated. There were many correct answers. Once again, a number of candidates did not multiply by 365, some did not round up the answer to the next whole day and some did not include the word 'days' in their answer.
- (g) Following on from **part (f)**, candidates were required to state, giving a reason, whether the trade payables would be satisfied with the change in the payment period. As the period had reduced, the trade payables would be satisfied with the change. Some candidates misunderstood the question and answered from the viewpoint of the customer not the trade payable.

### Question 3

- (a) Data was provided in connection with a sole trader who had not maintained full double entry records and candidates were required to calculate the credit purchases for the year. Answers in the form of an arithmetic calculation or a total trade payables account were equally acceptable. Many candidates successfully calculated the correct figure. Common errors were:
- including the purchase of non-current assets
  - including sales returns and cash discount allowed
  - incorrect treatment of some of the items especially the closing amount owed to the trade payables
- (b) Candidates were required to calculate the amount received from credit customers during the year. Answers in the form of an arithmetic calculation or a total trade receivables account were equally acceptable. Once again, many candidates successfully calculated the correct figure. Common errors were:
- including purchases returns and cash discount received
  - incorrect treatment of some of the items especially the closing amount owed by trade receivables
  - omission of bad debts
- (c) Using the data provided and **part (b)**, candidates had to prepare a bank account. The missing figure for expenses for the year had to be inserted. There was a wide variation in the marks earned. Some were wholly correct, but common errors included:
- inclusion of extraneous items such as bad debts and returns
  - incorrect details such as 'interest' in lieu of 'loan' and 'sales' in lieu of 'trade receivables'
  - entering the closing balance on the debit side and describing it as 'cash'
  - not appreciating that the amount paid for expenses must appear on the credit side
- (d) Three advantages of maintaining double entry records had to be stated. There was a wide range of responses. Many candidates correctly mentioned that the preparation of financial statements would be easier and the possibility of fraud would be reduced. Some incorrectly believed that the records would automatically be error-free.
- (e) (i) The reasons for the interest of the bank manager in the financial statements of a business were generally answered satisfactorily. Many correctly made reference to the ability to repay the loan/overdraft, ability to pay the interest and the security available.
- (ii) Most candidates earned at least one of the available two marks. Acceptable reasons why the credit suppliers would be interested in the financial statements included checking the financial position, the likelihood of being paid and setting the credit limit.

### Question 4

- (a) (i) Using data provided and a partnership's appropriation account, the rate of interest on drawings had to be calculated. There were many correct responses. A common error was to reverse the numerator and the denominator.
- (ii) A similar calculation was required to calculate the rate of interest on capital. Once again, there were many correct responses. A common incorrect answer was 6.375 per cent. Candidates who produced this figure had not appreciated that Liam had transferred \$20 000 to his capital account during the year. The interest on his capital was based on six months on \$160 000 and six months on \$180 000.

- (b) The current accounts of two partners had to be completed using the data provided at the start of the question. Some candidates earned high marks. Common errors were:
- omission of the transfer to Liam's capital account
  - inclusion of extraneous items such as the motor vehicle
  - omission of the shares of loss
  - recording the shares of loss on the credit side
  - not considering the opening balances when calculating the closing balances
  - omission of dates
- (c)/(d) The current ratio and the quick (acid test) ratio had to be calculated. There were many wholly correct answers. The most common error was not displaying the answers correct to two decimal places.
- (e) (i) Candidates were required to suggest, giving a reason, one way in which both the current ratio and the quick (acid test) ratio could be increased. Some correctly suggested obtaining a long term loan or selling non-current assets. Incorrect answers included comments about increasing sales, and reducing costs.
- (ii) An explanation was required why selling inventory at cost price would increase the quick (acid test) ratio but would not affect the current ratio. This proved to be very difficult for many learners. A typical incorrect response described how inventory should be valued at the lower of cost and net realisable value. If inventory is sold at cost the inventory decreases and the bank overdraft decreases by the same amount. Only the change in the bank affects the liquid assets.
- (f) Four factors that should be considered before admitting a new partner (the brother of the existing partners) had to be suggested. Some candidates listed generic points (such as finding out about this person's character) and did not relate them to the actual scenario where the potential partner was a close relative. Correct suggestions referred to the profit shares, division of work and capital to be introduced by the new partner.

#### Question 5

- (a) A draft statement of financial position was provided together with a list of errors which were subsequently discovered. Journal entries were required to correct two of the errors. Those candidates with a good knowledge of double entry were able to prepare two correct journal entries. Common errors included using terms such as 'bank overdraft' rather than the name of the account in which the entry would be made.
- (b) A statement of corrected profit had to be completed. Most candidates were able to earn some of the available marks. Common errors were:
- overlooking the \$100 error in trade receivables account when calculating the provision for doubtful debts
  - reducing the profit by insurance, \$2800, instead of increasing the profit by the insurance prepayment, \$400
  - depreciating all the non-current assets (ignoring the statement about premises not being depreciated)
  - not taking the draft profit, \$3330, into consideration when calculating the corrected profit for the year
- (c) Candidates were required to prepare a corrected statement of financial position. Many candidates did not seem familiar with the correct form of presentation for a statement of financial position and did not attempt to divide the assets and liabilities into appropriate sections. Common errors were:
- not including column headings when the non-current assets were displayed in three column format
  - not showing the correct wording for the provision for doubtful debts
  - not deducting the provision for doubtful debts from the trade receivables to show the net amount
  - omission of the other receivables (prepaid insurance)
  - not adjusting the bank overdraft for the bank charges

# ACCOUNTING

---

**Paper 0452/22**  
**Paper 22**

## **Key messages**

Candidates should read through a question very carefully before attempting an answer. This ensures that an important piece of information is not overlooked and that instructions are followed precisely. A factually correct statement, which is not the answer to the question being asked, cannot be awarded credit.

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 'COS' for 'cost of sales' in a trading account.

## **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.

The written answers produced in some of the narrative questions were vague and lacked clarity.

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. It is important for candidates to focus their attention on the words entered in the details column and dates as well as the amounts.

## **Comments on specific questions**

### **Question 1**

(a) Candidates were provided with a list of transactions and asked to complete a cash book.

Most students understood how to prepare a cash book. Common errors were:

- incorrect calculations of the discount allowed/received and the net amounts.
- incorrect narratives for some of the entries e.g. 'dishonoured cheque' rather than 'Caleb'.
- missing or incorrect dates.
- opening balances omitted when adding up the bank column and consequently the closing balances were incorrect.

(b) This was well answered with most candidates correctly identifying the person who would issue the four business documents.



- (c) The better-prepared candidates were able to correctly explain the difference between a debit note and a credit note. There were a variety of answers that were not fully developed. Some candidates simply stated that a debit note was issued by the purchaser and a credit note was issued by the supplier, without making reference to the receiver, or the reason for the issue of these documents. Other answers incorrectly concentrated on the different treatment of the documents in the books of account.
- (d) Many candidates were able to state one purpose of issuing a statement of account. However, some answers lacked clarity and did not mention a time period when referring to summarising the customer's transactions. There were a few candidates who confused the statement of account with a bank statement.

## Question 2

- (a) The question provided candidates with information relating to a musical society. They were asked to prepare the subscriptions account showing the subscriptions received during the year and to balance the account. This question provided good differentiation with the well-prepared candidates achieving full marks. Some weaker responses included all items of expenditure in the account treating it more as a 'receipts and payments' account. Other common errors included:
- opening balances incorrectly labelled as 'accrued' and 'prepaid' and/or on the wrong side of the account
  - the transfer to the income and expenditure account wrongly labelled as 'income statement'
  - accounts not balanced as required in the question
  - incorrect or missing dates

- (b) Candidates were required to prepare the receipts and payments account relating to a musical society and to calculate the amount of money that was missing from the society's funds.

Some candidates earned full marks in this section. But a common problem was the completion of the detail column in the account; candidates frequently provided a description of the transaction rather than the account name of the corresponding double entry e.g. 'payment of rates' rather than 'rates'. Other errors included:

- extraneous items included in the account such as depreciation of musical instruments
- no opening or closing balances – many candidates did not associate the bank balances provided in the question as being the opening and closing balances on the receipts and payments account
- items for rates and insurance wrongly adjusted for accruals and prepayments
- including the full amount for musical instruments when only 50 per cent of the total was actually paid in the current financial year
- missing funds not identified, candidates adjusted the balance carried down and did not realise that the difference on the account related to the missing funds.

- (c) The candidates were provided with a list of items that would appear in the income and expenditure account. They were asked to show the amounts against each item that would be shown in the account. The question required some simple calculations. The depreciation figure was a little more complex. However, very few candidates achieved full marks. Common errors included:
- not calculating the profit from the sale of concert tickets.
  - rates and insurance not adjusted for accruals and prepayments
  - no workings shown for the depreciation calculation so no calculation marks could be awarded
  - candidate included the actual money received for the musical instruments rather than the 'loss' on sale.

- (d) Candidates were asked to discuss the implications of increasing the musical society's annual subscriptions.

There was quite a lot of repetition of ideas in the answers. Some candidates wrote about sales, profit and/or capital increasing not recognising that these were not valid items relating to a society. Others concentrated on members being displeased with the increase without mentioning the effect on the overdraft even though the question specifically referred to it.

### Question 3

- (a) Using information provided candidates were required to prepare a manufacturing account. There was some evidence to suggest that not all candidates were confident in producing a manufacturing account as their presentation resembled an income statement or an income statement with an attempt at a manufacturing account where the cost of sales would be.

However, most candidates made a reasonable attempt. Some common issues included:

- the net figure for purchases was not shown
- 'cost of raw materials consumed' was not labelled
- extraneous items included in the prime cost section, notably 'operating expenses'
- extraneous items included in the factory overheads, notably 'depreciation on the office fixtures and fittings'
- depreciation for the factory machinery and loose tools omitted from the factory overheads
- the depreciation on loose tools incorrectly labelled as 'revaluation'
- the closing work in progress shown as a minus figure amongst the factory overhead expenses
- 'cost of production' not labelled

- (b) This followed on from 3(a) as candidates were required to prepare the trading section of the income statement relating to the toy factory. Candidates were told that the mark up was 25 per cent and they had to apply this to their cost of sales to calculate the gross profit and revenue figures. This was answered well and candidates were able to gain own figure marks having correctly identified the cost of production from the previous section. Some candidates lost valuable time by also preparing the profit and loss section of the income statement which was not required. Common errors included:

- cost of production omitted from the cost of sales calculation
- closing inventory of finished goods deducted before cost of production.
- incorrect calculation for gross profit
- gross profit unlabelled or incorrectly labelled as GP
- net figure for revenue not shown

- (c) Candidates had to complete a table to indicate the effect of three errors on the cost of production, gross profit and net profit. The better-prepared candidates were able to achieve full marks.

### Question 4

- (a) This section asked candidates to prepare a rates account and commission receivable account. The better-prepared candidates were able to gain full marks. Most candidates correctly entered the bank/cash transactions. Common errors included:

- account entries fully reversed
- dates and years missing or incorrect
- opening and closing balances were incorrectly labelled as 'accrued' or 'prepaid'
- annual rates included as the opening balance in the rates account rather than 'income statement'
- commission receivable transactions included in the rates accounts
- no entry for the amount of commission receivable for the year that would be transferred to the income.

- (b) Most candidates made a good attempt at calculating the rate of inventory turnover. The most common mistake was to use the revenue figure rather than cost of sales figure as the numerator.
- (c) Candidates were provided with the rate of inventory turnover for the previous year and asked to comment whether the owner would be satisfied with the change in the ratio. Most candidates were able to correctly state that the owner would not be satisfied with the more recent ratio but were unable to give a satisfactory explanation why. Most answers focused on the ratio having decreased but did not say what may have caused this change.
- (d) Candidates had to suggest two ways in which the rate of inventory turnover could be improved. Most candidates recognised that increasing the sales activity would improve the ratio but finding a second alternative proved more difficult. Some common incorrect answers were 'increase prices', 'reduce prices', 'increase advertising', 'reduce cost of sales' or 'look for cheaper suppliers'.
- (e) Most candidates knew that the reason why inventory was valued at lower of cost or net realisable value was to comply with the prudence principle and to ensure that profit and/or current assets were not overstated. However, some candidates lost marks if they referred to assets rather than current assets or inventory. Candidates need to be specific in their responses.
- (f) Candidates were told that after the preparation of the income statement, it was discovered that the closing inventory had been overstated. They were asked to complete a table showing the effect this would have on gross profit, capital, cost of sales and profit for the year. The better-prepared candidates achieved full marks.

#### Question 5

- (a) (i) Using the data provided, candidates were required to calculate the trade receivables collection period. Some candidates did not round up their answers to the next whole day as specified in the question.
  - (ii) Most candidates correctly identified ways of improving the trade receivables collection period. Answers focused on offering cash discount and charging interest on overdue accounts. However, some answers lacked the necessary detail by suggesting offering discount and charging interest omitting the critical elements of 'cash' discount and interest on 'overdue accounts'.
- (b) (i) This was similar to **5(a)(i)**. Candidates were required to calculate the trade payables payment period rounding their answer to the next whole day. Whilst most candidates got the calculation correct, some did not follow the requirement of rounding up their answer to the next whole day.
  - (ii) Candidates were asked to suggest two ways in which the change in the trade payables payment period may affect the owner. As the payment period had decreased and was within the time allowed, answers correctly concentrated on 'receipt of cash discount', 'deprived of the use of money elsewhere in the business' and 'improved relationships'. Some candidates did not appear to understand the implications of the trade payables payment being lower and they answered the question as though the time taken had increased.
- (c) (i) (ii) Candidates were asked to calculate the percentage of gross profit to revenue, percentage of profit for the year to revenue and return on capital employed (ROCE).

Many candidates correctly calculated the gross profit to revenue and profit for the year to revenue were performed well. However, some candidates did not round their answers to two decimal places as required.

The calculation for return on capital employed proved more problematic with many candidates unable to calculate the correct figure for capital employed. This question provided good differentiation with the better-prepared candidates achieving full marks.

(d) Candidates were told that after preparing draft financial statements, three errors were discovered. They were asked to complete a statement showing the effect on the draft profit for the year of correcting the errors and to calculate the corrected profit for the year. Marks were awarded firstly for knowing whether the profit would increase or decrease as a result of the errors being corrected and secondly for the amount of the adjustment required. Some common mistakes included:

- Error 1 – Candidates adjusted the profit by the total amount of the advertising campaign \$900 rather than just the element relating to the prepayment.
- Error 2 – Most candidates did not realise that to correct this error, the amount had to be doubled to \$2400. A number of candidates thought that correcting this error would increase the profit for the year.
- Error 3 – This error proved the most challenging, with only a few candidates being able to correctly calculate the effect on the profit for the year of using an incorrect depreciation method. Some candidates incorrectly adjusted the profit for the year by either the cost of the office equipment \$15 000 or the accumulated depreciation figure of \$3000. This was a good differentiator.

# ACCOUNTING

---

**Paper 0452/22**  
**Paper 23**

## **Key messages**

Candidates should read through a question very carefully before attempting an answer. This ensures that an important piece of information is not overlooked and that instructions are followed precisely. A factually correct statement, which is not the answer to the question being asked, cannot be awarded credit.

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 'COS' for 'cost of sales' in a trading account.

## **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.

The written answers produced in some of the narrative questions were vague and lacked clarity.

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. It is important for candidates to focus their attention on the words entered in the details column and dates as well as the amounts.

## **Comments on specific questions**

### **Question 1**

(a) Candidates were provided with a list of transactions and asked to complete a cash book.

Most students understood how to prepare a cash book. Common errors were:

- incorrect calculations of the discount allowed/received and the net amounts.
- incorrect narratives for some of the entries e.g. 'dishonoured cheque' rather than 'Caleb'.
- missing or incorrect dates.
- opening balances omitted when adding up the bank column and consequently the closing balances were incorrect.

(b) This was well answered with most candidates correctly identifying the person who would issue the four business documents.

- (c) The better-prepared candidates were able to correctly explain the difference between a debit note and a credit note. There were a variety of answers that were not fully developed. Some candidates simply stated that a debit note was issued by the purchaser and a credit note was issued by the supplier, without making reference to the receiver, or the reason for the issue of these documents. Other answers incorrectly concentrated on the different treatment of the documents in the books of account.
- (d) Many candidates were able to state one purpose of issuing a statement of account. However, some answers lacked clarity and did not mention a time period when referring to summarising the customer's transactions. There were a few candidates who confused the statement of account with a bank statement.

## Question 2

- (a) The question provided candidates with information relating to a musical society. They were asked to prepare the subscriptions account showing the subscriptions received during the year and to balance the account. This question provided good differentiation with the well-prepared candidates achieving full marks. Some weaker responses included all items of expenditure in the account treating it more as a 'receipts and payments' account. Other common errors included:
- opening balances incorrectly labelled as 'accrued' and 'prepaid' and/or on the wrong side of the account
  - the transfer to the income and expenditure account wrongly labelled as 'income statement'
  - accounts not balanced as required in the question
  - incorrect or missing dates

- (b) Candidates were required to prepare the receipts and payments account relating to a musical society and to calculate the amount of money that was missing from the society's funds.

Some candidates earned full marks in this section. But a common problem was the completion of the detail column in the account; candidates frequently provided a description of the transaction rather than the account name of the corresponding double entry e.g. 'payment of rates' rather than 'rates'. Other errors included:

- extraneous items included in the account such as depreciation of musical instruments
  - no opening or closing balances – many candidates did not associate the bank balances provided in the question as being the opening and closing balances on the receipts and payments account
  - items for rates and insurance wrongly adjusted for accruals and prepayments
  - including the full amount for musical instruments when only 50 per cent of the total was actually paid in the current financial year
  - missing funds not identified, candidates adjusted the balance carried down and did not realise that the difference on the account related to the missing funds.
- (c) The candidates were provided with a list of items that would appear in the income and expenditure account. They were asked to show the amounts against each item that would be shown in the account. The question required some simple calculations. The depreciation figure was a little more complex. However, very few candidates achieved full marks. Common errors included:
- not calculating the profit from the sale of concert tickets.
  - rates and insurance not adjusted for accruals and prepayments
  - no workings shown for the depreciation calculation so no calculation marks could be awarded
  - candidate included the actual money received for the musical instruments rather than the 'loss' on sale.

- (d) Candidates were asked to discuss the implications of increasing the musical society's annual subscriptions.

There was quite a lot of repetition of ideas in the answers. Some candidates wrote about sales, profit and/or capital increasing not recognising that these were not valid items relating to a society. Others concentrated on members being displeased with the increase without mentioning the effect on the overdraft even though the question specifically referred to it.

### Question 3

- (a) Using information provided candidates were required to prepare a manufacturing account. There was some evidence to suggest that not all candidates were confident in producing a manufacturing account as their presentation resembled an income statement or an income statement with an attempt at a manufacturing account where the cost of sales would be.

However, most candidates made a reasonable attempt. Some common issues included:

- the net figure for purchases was not shown
- 'cost of raw materials consumed' was not labelled
- extraneous items included in the prime cost section, notably 'operating expenses'
- extraneous items included in the factory overheads, notably 'depreciation on the office fixtures and fittings'
- depreciation for the factory machinery and loose tools omitted from the factory overheads
- the depreciation on loose tools incorrectly labelled as 'revaluation'
- the closing work in progress shown as a minus figure amongst the factory overhead expenses
- 'cost of production' not labelled

- (b) This followed on from 3(a) as candidates were required to prepare the trading section of the income statement relating to the toy factory. Candidates were told that the mark up was 25 per cent and they had to apply this to their cost of sales to calculate the gross profit and revenue figures. This was answered well and candidates were able to gain own figure marks having correctly identified the cost of production from the previous section. Some candidates lost valuable time by also preparing the profit and loss section of the income statement which was not required. Common errors included:

- cost of production omitted from the cost of sales calculation
- closing inventory of finished goods deducted before cost of production.
- incorrect calculation for gross profit
- gross profit unlabelled or incorrectly labelled as GP
- net figure for revenue not shown

- (c) Candidates had to complete a table to indicate the effect of three errors on the cost of production, gross profit and net profit. The better-prepared candidates were able to achieve full marks.

### Question 4

- (a) This section asked candidates to prepare a rates account and commission receivable account. The better-prepared candidates were able to gain full marks. Most candidates correctly entered the bank/cash transactions. Common errors included:

- account entries fully reversed
- dates and years missing or incorrect
- opening and closing balances were incorrectly labelled as 'accrued' or 'prepaid'
- annual rates included as the opening balance in the rates account rather than 'income statement'
- commission receivable transactions included in the rates accounts
- no entry for the amount of commission receivable for the year that would be transferred to the income.

- (b) Most candidates made a good attempt at calculating the rate of inventory turnover. The most common mistake was to use the revenue figure rather than cost of sales figure as the numerator.
- (c) Candidates were provided with the rate of inventory turnover for the previous year and asked to comment whether the owner would be satisfied with the change in the ratio. Most candidates were able to correctly state that the owner would not be satisfied with the more recent ratio but were unable to give a satisfactory explanation why. Most answers focused on the ratio having decreased but did not say what may have caused this change.
- (d) Candidates had to suggest two ways in which the rate of inventory turnover could be improved. Most candidates recognised that increasing the sales activity would improve the ratio but finding a second alternative proved more difficult. Some common incorrect answers were 'increase prices', 'reduce prices', 'increase advertising', 'reduce cost of sales' or 'look for cheaper suppliers'.
- (e) Most candidates knew that the reason why inventory was valued at lower of cost or net realisable value was to comply with the prudence principle and to ensure that profit and/or current assets were not overstated. However, some candidates lost marks if they referred to assets rather than current assets or inventory. Candidates need to be specific in their responses.
- (f) Candidates were told that after the preparation of the income statement, it was discovered that the closing inventory had been overstated. They were asked to complete a table showing the effect this would have on gross profit, capital, cost of sales and profit for the year. The better-prepared candidates achieved full marks.

#### Question 5

- (a) (i) Using the data provided, candidates were required to calculate the trade receivables collection period. Some candidates did not round up their answers to the next whole day as specified in the question.
  - (ii) Most candidates correctly identified ways of improving the trade receivables collection period. Answers focused on offering cash discount and charging interest on overdue accounts. However, some answers lacked the necessary detail by suggesting offering discount and charging interest omitting the critical elements of 'cash' discount and interest on 'overdue accounts'.
- (b) (i) This was similar to **5(a)(i)**. Candidates were required to calculate the trade payables payment period rounding their answer to the next whole day. Whilst most candidates got the calculation correct, some did not follow the requirement of rounding up their answer to the next whole day.
  - (ii) Candidates were asked to suggest two ways in which the change in the trade payables payment period may affect the owner. As the payment period had decreased and was within the time allowed, answers correctly concentrated on 'receipt of cash discount', 'deprived of the use of money elsewhere in the business' and 'improved relationships'. Some candidates did not appear to understand the implications of the trade payables payment being lower and they answered the question as though the time taken had increased.
- (c) (i) (ii) Candidates were asked to calculate the percentage of gross profit to revenue, percentage of profit for the year to revenue and return on capital employed (ROCE).

Many candidates correctly calculated the gross profit to revenue and profit for the year to revenue were performed well. However, some candidates did not round their answers to two decimal places as required.

The calculation for return on capital employed proved more problematic with many candidates unable to calculate the correct figure for capital employed. This question provided good differentiation with the better-prepared candidates achieving full marks.



(d) Candidates were told that after preparing draft financial statements, three errors were discovered. They were asked to complete a statement showing the effect on the draft profit for the year of correcting the errors and to calculate the corrected profit for the year. Marks were awarded firstly for knowing whether the profit would increase or decrease as a result of the errors being corrected and secondly for the amount of the adjustment required. Some common mistakes included:

- Error 1 – Candidates adjusted the profit by the total amount of the advertising campaign \$900 rather than just the element relating to the prepayment.
- Error 2 – Most candidates did not realise that to correct this error, the amount had to be doubled to \$2400. A number of candidates thought that correcting this error would increase the profit for the year.
- Error 3 – This error proved the most challenging, with only a few candidates being able to correctly calculate the effect on the profit for the year of using an incorrect depreciation method. Some candidates incorrectly adjusted the profit for the year by either the cost of the office equipment \$15 000 or the accumulated depreciation figure of \$3000. This was a good differentiator.