

ACCOUNTING

Paper 9706/11
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	C	16	B
2	B	17	D
3	C	18	C
4	C	19	A
5	B	20	A
6	C	21	B
7	B	22	B
8	A	23	B
9	B	24	A
10	C	25	D
11	B	26	A
12	B	27	A
13	D	28	B
14	C	29	A
15	C	30	B

General comments

A total of only 50 candidates took this paper. The results were unsatisfactory, but with such a small sample it is difficult to say if it is statistically significant. Of those taking the paper only 34% achieved 15 or more correct answers. The mean was 13.8 and the median 13.

Very few questions proved easy to candidates, with **Questions 3, 13 and 19** answered correctly by 70% or more of candidates. Results indicate that were a large number of questions which proved difficult. Some of these have been considered below.

Specific questions

Question 2

This question required candidates to identify how much income should be credited in the income statement and shown as a current liability in the statement of financial position. Many candidates inappropriately classified outstanding amount as a current asset rather than a current liability. Prepaid income is a liability as the business owes it back to the payer until the business can take it into the income statement.

Question 5

The capitalisation of expenditure was the basis of this question. Most candidates put the answer as **C**, which was revenue expenditure.

Question 9

Suspense accounts always prove difficult. Candidates are advised to write 'T' accounts as workings, showing what had been done wrongly (the error) and what needs to be done to correct it. This would have led to seeing two debits and no credit, thus the suspense account would have started with a credit balance of double the amount. As a general rule two debits and no credit (or vice versa) will almost always lead to double the amount being the suspense account.

Question 14

Likewise disposal of assets always proves difficult. The distractor of \$80 000 led most candidates to the wrong answer. The calculation was $398 + 195 - (24 - 2) - 480 = 91$, being the key **C**.

Question 25

With this question most candidates seemed to correctly calculate the cost of the order as \$156 ($75 + 42 + (42 \div 7 \times 6.50)$), but then failed to add on the 20% profit to arrive at the correct answer.

Question 30

Here candidates seemed to miss the fact that the cash in and out from credit sales and purchases was the figures from June but the wages and drawings figures were from July. Thus the calculation was:
 $6000 + 80\ 000 - 56\ 000 - 18\ 000 - 500 = \$11\ 500$.

Overall comment

This paper clearly proved difficult to candidates. Hopefully some of the items reviewed above will help give guidance in certain areas.

ACCOUNTING

Paper 9706/12
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	16	D
2	B	17	B
3	B	18	A
4	B	19	D
5	B	20	A
6	B	21	C
7	A	22	A
8	B	23	C
9	C	24	D
10	B	25	C
11	A	26	A
12	B	27	C
13	A	28	C
14	D	29	C
15	B	30	C

General comments

A total of 6 689 candidates took this paper. There was a marked improvement in the results over November 2013 with 64% of candidates achieving a score of 15 or more out of 30. The median score was 17, with the mean slightly higher.

A high proportion of questions proved easy to candidates. **Questions 13, 14, 15 20 and 26** were answered correctly by 70% or more candidates. Many of the remaining questions also had a high level of correct response from candidates. There were only two questions which from the data on responses proved difficult for candidates. These questions are considered below.

Specific questions

Question 16

Students were asked to calculate Z's share of the profit for the year from the data given. The correct answer was **D**, which combined a salary of \$10 000 plus interest on capital of \$800 and a 20% share of the residual profit of \$90 000, amounting to \$18 000. Many candidates incorrectly opted for **A**.

Question 25

This required candidates to consider the components in calculating non-current asset turnover. The formula is turnover (sales) ÷ net book value of non-current assets. The result over the two years was an increase. The numerator was constant so the denominator must have reduced. This could only have been as a result of **C**.

Overall comment

There was a marked improvement in the results of this paper.

ACCOUNTING

Paper 9706/13
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	16	B
2	B	17	D
3	C	18	C
4	C	19	C
5	D	20	D
6	D	21	A
7	C	22	D
8	C	23	B
9	B	24	D
10	B	25	D
11	A	26	D
12	D	27	D
13	D	28	A
14	C	29	C
15	D	30	C

General comments

A total of 1194 candidates took this paper. Of these, 62% achieved 15 or more marks out of 30. The median mark was 17, with the mean slightly higher. **Questions 1, 2, 11, 12, 16 and 30** proved easy with 70% or more candidates responding correctly to these. There were some questions which proved difficult for candidates. These are reviewed below.

Specific questions

Question 7

This was a slightly different from the usual type of question on this topic. Candidates were expected to identify the components of the sales ledger control account, the total of which was the figure which would appear in the financial statements and the individual sales ledger accounts.

The answer was **C**, (100 000 + 10 000).

Question 9

These types of questions always prove difficult. Students are advised to write down 'T' accounts as workings. Had they done so they would have seen that the first error resulted in the credit side being \$99 more than the debit side and when added to the \$100 short added on the debit side gave the answer **B**.

Question 24

The question required knowledge of the formula for the non-current asset turnover ratio: revenue (sales ÷ net book value of non-current assets), to arrive at the correct answer, that is, 2.26 times.

Question 29

This question proved challenging for most candidates, perhaps because candidates usually find questions on marginal cost statements difficult. Profit under marginal costing could be calculated as:

$125 \text{ batches} \times \$8 (12 - 4) = \$1000 - \text{fixed costs of } \$300 (100 \text{ batches} \times \$3) = \$700.$

Overall comment

As with previous sittings, this paper was well attempted by candidates. Hopefully the items covered above will help for even better future improvements.

ACCOUNTING

Paper 9706/21
Structured Questions (Core)

Key Messages

Candidates should take care to read the questions carefully and to answer the question that has been asked precisely. Furthermore, they should make sure that they develop points sufficiently in written questions. Candidates are advised to always show workings when answering computational questions.

General Comments

Candidates are reminded that questions may be set on any part of the syllabus. It is clear that questions on marginal or absorption costing are often not answered as well as those on financial accounting. It is very important to show workings wherever necessary as an incorrect figure with no supporting workings will not be rewarded whereas if workings are shown, some marks may be awarded even for an incorrect answer.

There was clear evidence in this paper that candidates are not providing sufficient development of points made in response to the written questions. This problem must be addressed to ensure success.

Candidates should be made aware that there is no better preparation for the examination than answering previous examination questions and appropriate textbook exercises.

Comments on Specific Questions

Question 1

The question focused on a manufacturing business and required candidates to prepare a sales ledger control account, together with a manufacturing account and income statement. Whilst most candidates were familiar with the preparation of an income statement, weaker candidates showed very poor presentation skills in all parts of this question.

- (a) Most candidates were able to gain good marks in the preparation of the sales ledger control account. The most common mistake was a failure to bring down the closing balance at 1 January 2014.
- (b) Preparation of the manufacturing account was generally well done. Well prepared candidates produced well presented accounts and clearly labelled both prime costs and the final cost of production. Less well prepared candidates made no attempt to separate the factory costs and the office costs, whilst some candidates did not appear to be aware of the structure of a manufacturing account.
- (c) There were some very good responses to producing the income statement. As was the case with the manufacturing account, the presentation by a number of candidates was poor. A common mistake was to include a full year's depreciation on the motor vehicle despite the fact that the income statement was covering only a six month period. Candidates must remember that labels in financial statements are very important.
- (d) The final part of the question required candidates to offer straightforward explanations of two accounting concepts. Generally, answers were very vague, with many candidates simply stating for the matching concept, that transactions should be entered in the year in which they occur, which does not explain the concept. Many candidates were of the opinion that the materiality concept meant that a monetary value should be placed on assets. Clearly this important area of the syllabus is being neglected and candidates must be aware that in the case of a three mark question, answers must show development, not just one statement of fact.

Question 2

Much of the second question involved completing the ledger accounts for the purchase and sale of motor vehicles. The question was a test of basic double entry skills. Unfortunately this proved difficult for a large number of candidates.

- (a) (i) Preparation of the motor vehicles at cost account offered the opportunity to gain five marks, but a significant number of candidates entered depreciation figures in the account. Many candidates were unaware of how to deal with the \$2600 part exchange element of the transaction and simply entered the full \$24 000 as payment from the bank.
 - (ii) Preparation of the provision for depreciation of motor vehicles account was also inadequately attempted by most candidates. Only a few candidates realised that a transfer must be made from this account to the income statement and only a minority correctly calculated the depreciation on the motor vehicle that had been sold.
 - (iii) The disposal of motor vehicles account proved challenging to the majority of candidates. Narratives in this account were particularly weak. The loss on sale, when calculated, was seldom correctly referred to as a transfer to the income statement. Even allowing for the fact that candidates were allowed marks for their own figure transfers from the other two accounts, there was evidence that this area of double entry bookkeeping was not understood.
- (b) Whilst well prepared candidates gained good marks in calculating the annual depreciation charge for each class of asset, some candidates penalised themselves by producing very disorganised and confused workings. Many candidates were able to correctly calculate the charge for freehold land and buildings and for machinery, the motor vehicles figure proved difficult to reward, even though the calculation had already been undertaken in the previous part of the question.
 - (c) As is often the case, candidates often do not provide sufficient development of their answers. Many candidates simply stated that goodwill is the amount by which value of the business exceeds the book value. There were plenty of correct reasons for how goodwill could arise, but many candidates did not respond to this part of the question.
 - (d) The explanations of how goodwill should be treated in the books of a partnership was quite well answered with most candidates referring to the fact that it should be written off against the capital accounts of the partners in their profit sharing ratios.

Question 3

The cost accounting question concentrated entirely on marginal costing and well prepared candidates answered the question well.

- (a) Most candidates seemed confident in the calculation of the breakeven point and totally correct answers were quite common.
- (b) Similarly, there were a number of totally correct answers to the second part of the question requiring the calculation of breakeven point as a percentage of capacity. However, the mathematical process proved difficult for weaker candidates.
- (c) In preparing the marginal cost statement, it was disappointing to note that a number of candidates did not follow marginal cost rules and deducted fixed costs before the calculation of contribution. However, again there were a number of totally correct statements.
- (d) Calculation of the revised breakeven point was not well attempted. Despite some very good answers to part (a) of this question showing that most candidates were able to calculate a straightforward breakeven point, the inclusion of adjustments to capacity, revenue and expenditure proved challenging. A systematic approach to the various criteria would have almost certainly produced better results.
- (e) Despite some correct calculations of the revised breakeven point, fewer candidates were able to calculate this as a percentage of capacity.

- (f) Once again, there was evidence that some candidates were unsure of the treatment of fixed costs in a marginal cost statement.
- (g) The final part of the question required candidates to assess the workings undertaken and advise whether the directors should go ahead with their proposals. To an extent this called for a textbook answer in that investment may always cause cash flow problems. However, many answers were disappointing in that they went little further than that basic point. Candidates who addressed the problems of increased breakeven point, falling profits and falling contribution were duly well rewarded. Many candidates failed to provide sufficiently developed comments to gain good marks.

ACCOUNTING

Paper 9706/22
Structured Questions

Key Messages

Candidates should take care to read the questions carefully and to answer the question that has been asked precisely. Furthermore, they should make sure that they develop points sufficiently in written questions. When answering computational questions, always show workings – marks can be awarded for these and it makes the candidate's task of answering the question much more straightforward.

General Comments

Candidates are reminded that questions may be set on any part of the syllabus. It is clear that questions on marginal or absorption costing are often not answered as well as those on financial accounting.

Candidates should be reminded that it is very important to show workings wherever necessary as an incorrect figure with no supporting workings will not be rewarded whereas if workings are shown, some marks may be awarded even for an incorrect answer.

Candidates should be made aware that there is no better preparation for the examination than answering previous examination questions and appropriate textbook exercises.

Comments on Specific Questions

Question 1

The question required candidates to prepare control accounts for purchases, sales and expenses, together with the preparation of an income statement. Whilst most candidates were familiar with the preparation of an income statement, some candidates did not perform well in all parts of this question.

- (a) Well prepared candidates were generally able to gain good marks in the preparation of the sales ledger control account. Some candidates did not bring down the closing balance at 1 January 2014 or included cash transactions. The sales ledger control account is a record of credit transactions only.
- (b) Performance on preparation of the purchases ledger control account was same as preparation of the sales ledger control account in part (a).
- (c) Calculation of the total expenses for the year proved difficult for a large majority of candidates. Very few candidates recognised that the payment of expenses had to be adjusted for both the opening figure of other payables from the opening statement of financial position and also for the closing figure of other receivables, in other words, opening accruals and closing prepayments. A significant number of candidates were awarded only one mark for this part of the question by including the \$26,100 bank payment.
- (d) The final part of the question required candidates to prepare an income statement based on much of the work carried out in parts (a) – (c). Whilst well prepared candidates were able to gain a good proportion of the 15 available marks, some candidates appeared ill-prepared for this question. Whilst the majority of information required to prepare the income statement was provided in the question, a failure by candidates to show workings for other aspects resulted in lost marks. Weaker candidates failed to account for any depreciation on the non-current assets. Some candidates did not account for the unbanked takings of \$29,000.

Question 2

Much of the second question involved accounting for various transactions regarding non-current assets by a series of journal entries. Very basic calculations were required and the task was a test of double-entry knowledge. The task proved difficult for a large number of candidates. Many transactions were entered the wrong way round and others completely omitted.

- (a) (i) Overall the performance on this part was good, although some candidates carelessly stated that the credit was to Walker rather than Arcadia.
 - (ii) Few candidates calculated the correct charge for depreciation. Regarding the credit entry, it was not correct to state 'depreciation'. That entry could refer to the charge to the income statement. The correct account was the 'provision for depreciation – fixtures and fittings'
 - (iii) Performance of candidates on this part was similar to that in (a)(ii).
 - (iv) There were some totally correct answers to the entries for the disposal of the equipment, but generally, candidates were not confident. A significant number of candidates credited the bank with the proceeds of the sale rather than debiting and the entries in the disposal account were often unclear.
- (b) (i) Few candidates were able to explain the purposes of the journal. The main purpose is the processing of non-routine transactions, not as was often stated, the processing of all transactions.
 - (ii) Most candidates were able to offer either one or two examples of transactions that would be recorded in the journal.
- (c) (i) The majority of candidates correctly identified an accounting concept that is applied when depreciation is provided.
 - (ii) Whilst some candidates offered very good explanations of why the business was considering changing from the straight-line method of depreciation to the reducing balance method, many offered only very superficial answers. Weaker candidates tended to simply describe the two methods rather than discussing the appropriateness to different classes of asset.

Question 3

The cost accounting question, concentrating on the differences between marginal costing and absorption costing produced some very good work by a number of candidates, although weaker candidates did not appear to understand the difference between the two methods.

- (a) Most candidates were able to correctly identify the marginal cost of producing one unit, although some calculated the marginal cost of the full production.
- (b) Most candidates correctly calculated the absorption cost of one unit, but again. Some calculated the absorption cost of the full production.
- (c) Many candidates correctly calculated the correct marginal cost profit, though presentation was often poor. The most common mistake was the incorrect calculation of sales revenue, many candidates assuming that all 15,000 units produced were sold, despite a clear instruction that sales amounted to 13,000 units in the year.
- (d) Despite there being clear instruction regarding the basis of absorption of fixed overheads, these were ignored by a number of candidates. As was the case in the previous part, many candidates miscalculated sales revenue.
- (e) Despite being only a two mark question, very few candidates were able to reconcile the difference between the profits calculated under the two costing methods. The difference is simply due to the different inventory valuations. A significant number of candidates did not even attempt this task.
- (f) Whilst a number of candidates were able to vaguely refer to the different treatment of fixed costs in inventory, only a few were able to offer sufficient development of the reason.

- (g) Despite the fact that the question clearly referred to marginal costing, some candidates attempted to answer this part of the question from an absorption costing perspective. Answers were often very unclear as to whether the candidate was indicating an increase in contribution or a decrease. The majority of candidates were of the opinion that the profit for the year would be different when this is clearly not the case.

ACCOUNTING

Paper 9706/23
Structured Questions

Key Messages

It is important that candidates pay attention to both the written part of questions as well as the computational parts.

Workings should be shown where appropriate.

General Comments

Performance of some candidates was very good but there was also evidence that few candidates were not fully prepared for the examination.

All of the questions were attempted by nearly all of the candidates and there was no evidence of time pressure.

Comments on Specific Questions

Section A

Question 1

Parts **(a)**, **(b)** and **(c)** were generally well answered but responses to **(d)** and **(e)** needed to be improved.

- (a)** Many candidates scored full marks. The most common error on this part was the miscalculation or omission of the depreciation of shop fittings. Some candidates erroneously included administration expenses in the shop trading account.
- (b)** Many candidates prepared the income and expenditure account correctly. Most candidates were able to correctly calculate the correct depreciation figure and those who made errors would have received partial credit where workings were shown. Candidates should have adjusted the cash book figure for subscriptions. Few candidates were able to calculate and post the required interest figure correctly.
- (c)** Most candidates prepared a reasonable statement of financial position but there were very few which were completely correct. Few candidates made the correct entry for the bank deposit account and only a small number calculated the subscriptions in advance correctly. Candidates need clarity on calculation of the opening accumulated fund as is evident from the errors in its calculation. Candidates could have improved their responses by reading the question instructions carefully. Many candidates overlooked instructions on how donations should be dealt with.
- (d)** The responses to this part were generally not up to the mark. Candidates needed to realise that the finance was being raised by a club. Therefore, issuing shares and / or admitting a partner were not appropriate responses.
- (e)** Very few candidates were able to state an appropriate advantage and disadvantage of the methods suggested by them.

Question 2

- (a) This part was answered satisfactorily with many candidates scoring full marks.
- (b) This was less well answered with some candidates not answering the question. The requirement was to state the causes but some responses inappropriately focused on 'residual value', 'disposal proceeds' etc.
- (c) Nearly all candidates correctly calculated the rates for buildings and machinery. Few candidates were also able to calculate the rate for motor vehicles. The most common error was to calculate the rate as $100/400 \times 100\%$ and state that the rate was 25%. These candidates seem to need clarity on reducing balance method.
- (d) Candidates had a mixed performance on this part. Some candidates merely stated how to make the calculations using the different methods. Relatively few responses mentioned the consistent loss in value for the machinery and therefore could not contrast it with the motor vehicles.
- (e) The non-current asset schedule was completed to a reasonable standard by most candidates. The cost section was completed to a high standard but the depreciation section was less well done. Few candidates were able to deal correctly with the depreciation charge for the year and disposal adjustment for the machinery and motor vehicles. Some candidates produced schedules which did not cast vertically and horizontally. Candidates are advised to re-check their calculations where time allows.

Question 3

- (a) This part was answered inadequately with only a few candidates demonstrating a complete understanding.
- (b) Most candidates correctly performed the calculation of overhead absorption rate. Candidates need to follow question requirements closely. Few candidates did not answer to two decimal places as was required.
- (c) This part was well answered by nearly all of the candidates. The most common errors resulted from the re-apportionment of the service departments' costs.
- (d) This part was less well answered and many candidates incorrectly used direct labour hours as the base when calculating the overhead absorption rate of the Sewing department.
- (e) Candidates who had calculated the rates correctly in (d) generally performed well in this part and were able to calculate the under- / over-absorption. Some candidates performed the calculations correctly but disregarded 'over' or 'under' absorption.
- (f) There were very few correct responses to this part. There were a wide range of incorrect answers, the most common being fixed, variable, stepped, absorption, marginal, job, batch and process.

ACCOUNTING

Paper 9706/31
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	16	B
2	D	17	B
3	B	18	B
4	A	19	B
5	D	20	C
6	B	21	A
7	C	22	B
8	C	23	C
9	B	24	A
10	A	25	B
11	C	26	C
12	A	27	D
13	D	28	D
14	B	29	A
15	B	30	C

General comments

The paper was taken by 30 candidates. Of those only 33% achieved a score of 15 or more. The median mark was 11, with the mean slightly higher at 13. Candidates found a number of questions challenging. Some of these questions have been considered below.

Specific questions

Question 2

This was a knowledge based question which asked candidates to distinguish between adjusting and non-adjusting events in line with IAS10. This is covered in most texts at A level.

Question 4

The question was about the adjustment required to account for unrealised profit on goods transferred in from a manufacturing account. Candidates first had to calculate the provision at the end of 2013 (\$12 500) and then deduct it from the opening provision.

Question 6

Candidates were required to examine the impact on equity of the profit made for the year and the issue of shares. Of the three items given only two, the profit of \$90 000 and the rights issue of 50 000 shares at \$1.40 each, would have had an impact. The bonus issue should have been ignored.

Question 12

This question related to dividends paid and proposed on shares and their treatment in the financial statements. The point to note here is that the proposed dividends should have been ignored.

Question 13

This was a knowledge based question regarding accounting policies. In published accounts only option **D** is regarded as an accounting policy.

Question 19

The question asked candidates to consider how much dividend could be paid from reserves. Only two of the reserves, retained earnings and general reserve, could be used for this purpose. Hence the correct answer was $\$0.24 = (80\,000 + 40\,000) \div 500\,000$.

Question 30

This was a slightly challenging investment appraisal question. Candidates first needed to work out the average profit for the year, that is, $\$20\,000$ ($\$200\,000 \times 10\%$) and multiply it by 5 (the project life). The answer arrived at should then have been added to the capital cost.

Overall comment

Overall the paper was not well attempted. The paper will always contain a high proportion of questions on company accounts and the international accounting standards at this level. Thorough revision of these topics would serve candidates well in future examinations.

ACCOUNTING

Paper 9706/32
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	16	B
2	D	17	B
3	B	18	B
4	A	19	B
5	D	20	C
6	B	21	A
7	C	22	B
8	C	23	C
9	B	24	A
10	A	25	B
11	C	26	C
12	A	27	D
13	D	28	D
14	B	29	A
15	B	30	C

General comments

A total of 4391 candidates took this paper. Of these 63% achieved 15 or more correct answers. The median mark was 17 and the mean slightly higher.

Questions **1, 3, 6, 10, 24** and **25** were answered correctly by 70% or more of candidates. There were only three questions which proved difficult and these have been considered below.

Specific questions

Question 3

This was a knowledge based question concerning IAS7. It asked candidates to identify the financing activity from a list of activities. Of those listed, only **B** fell into this category.

Question 13

This again was a knowledge based question. It required candidates to identify an example of an accounting policy from the items listed. The best example of accounting policy was **D**, the continued use of straight line depreciation. In the published accounts you will see the depreciation methods listed under accounting policies.

Question 30

Investment appraisal usually features towards the end of the paper. This was slightly more challenging as candidates first had to calculate the average profit of \$20 000 ($\$200\,000 \times 10\%$). Then multiply it by 5 and add the answer to the capital cost of the project.

Overall comment

As indicated, this paper was well attempted by candidates.

ACCOUNTING

Paper 9706/33
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	16	A
2	B	17	A
3	C	18	A
4	C	19	D
5	D	20	C
6	C	21	B
7	B	22	B
8	D	23	B
9	B	24	C
10	A	25	C
11	D	26	A
12	B	27	C
13	A	28	B
14	A	29	B
15	A	30	C

General comments

A total of 826 candidates sat the paper, with 62% achieving a mark of fifteen or more. The median mark was 17, with the mean slightly lower.

A significant number of questions proved easy to candidates, with **7, 17, 18, 20** and **21** being answered correctly by 70% or more candidates. There were four questions which proved difficult and these have been considered below.

Specific questions

Question 13

This was a challenging question with the answer being **A**, calculated as the unrealised net loss of \$240 000 minus the gain on revaluation \$80 000.

Question 26

Inventory valuation using marginal costing should not really have caused any issues. The quantity of closing inventory was 50 units and the marginal cost per unit was \$11 (9 + 2) = \$550.

Question 28

This was a knowledge based question. The answer was **B**, in that a business will reconcile actual and budgeted profit to enable comparison with the flexed budget. The process alone will not allow the firm to identify the cause of the variances. It will indicate to management where to look but not as to the reason for the variance.

Question 29

In this question candidates needed to consider what was being done. Management is considering a course of action. What has already happened is irrelevant; hence the answer of **B**, the fact that the net book value is a sunk cost. Most candidates went for D. If statement D was read carefully it would have been evident that the results do not produce a net present value of \$5000. In fact from the data given it is not possible to calculate the net present value as there may be undisclosed cash outflows apart from the \$30 000.

Overall comment

Candidates performed well on this paper.

ACCOUNTING

Paper 9706/41
Problem Solving

General Comments

Many candidates were well prepared both in examination techniques and on individual subject areas. The majority of candidates were able to access the paper and attempt each question to some extent. There were no apparent timing issues. Although there appeared to be an improvement in the written evaluative sections of questions, most notably **Question 1(f)**, the main area of concern was the persistent inability of some candidates to show sufficient workings. This often compromised the students' ability to score well. All workings should be identified and referenced back to the final answer. Candidates should also read the detail within the questions very carefully to ensure they provide their responses based on the question requirement. Candidates were able to produce detailed answers to the partnership, **Question 1**, but the correct wording for a statement of financial position was often not used in **Question 2**. Some candidates incorrectly listed the individual expenses within the income statement rather than as either distribution costs or administrative expenses. The layout of answers supported by workings was especially important in **Question 3** for the net cash flow and net present value, although there seemed to be some improvement in the answers to the cost and management accounting questions.

Comments on specific questions

Question 1

- (a) This part of the question was dealt with well by the vast majority of candidates. The main problems were to do with the calculation of the sales and purchases figures. Common answers were \$85 000 or \$105 000 for sales and \$55 000 or \$85 000 for purchases. Most candidates then proceeded consistently to calculate the gross profit based on the given margin and arrived at the closing inventory accordingly. A few candidates worked backwards from the 40% gross profit. There was a little confusion over the treatment of loan interest – some candidates did not realise it was a loan from a partner and treated it as an appropriation of profit. Labelling in the income statement was variable. Some candidates inappropriately used abbreviations such as GP for gross profit.
- (b) There were mixed answers to this part of the question. The opening balance was often treated as a credit balance and loan interest was omitted. The majority of candidates included the profit share but relatively few brought the closing balance down. Unfortunately some candidates produced either the current accounts for all partners thereby wasting time or alternatively did not produce an account at all but a working. Candidates are advised not to use brackets within an account.
- (c) The gain on revaluation and goodwill adjustments were handled well by most candidates. Although as these were sometimes offset against each other detailed workings needed to be shown. The most common omissions were the motor vehicle, Tan's loan (either completely omitted, or one part of the transaction only completed or reversed) and the current account balance. Relatively few candidates brought down the remaining partners' balances. A small number only included current account items for all partners or current account balances for Ann and Jan. A few candidates did not seem to understand that Tan had left the partnership and recorded both a bank payment to him and a closing balance.
- (d) This part was either answered well or not at all with some candidates not knowing the formula or how to apply it. A few candidates made errors in their calculation of the dividend. A common error was $8\% \text{ of } \$24\,000 = \1920 so the yield was 0.96%. Candidates are encouraged to remember to state the answers to formulae correctly, in this instance with a % sign as the label.

- (e) Where the formula was known, candidates were able to apply their answers from d).
- (f) On the whole this part of the question was well answered. Most candidates managed to provide a relevant advantage and disadvantage of each option – and some were very well explained and detailed. Few candidates concluded with an evaluation which was fully supported with reasons, and fewer still were inclined to support this by any form of calculation. The majority of candidates are very familiar with the differences between limited company shareholders and sole traders, although some showed a lack of understanding as to how the market value and the nominal value of share capital works. A common misunderstanding in option 2 was where ‘breaking even in the first year’ was confused with payback and candidates thought that the investment would be recovered by profit in the first year. Also in option 1 many candidates thought that Tan would receive all \$24 000/\$80 00/\$1920 as his dividend without appreciating that his individual dividend would relate to only his shareholding and not the whole business.

Question 2

- (a) The majority of candidates prepared a reasonable income statement. A common error was to not use the correct layout required by listing the individual expenses on the face of the income statement instead of showing the expenses as totals for distribution costs and administrative expenses. The loss on disposal was usually correctly calculated but was not split between the two categories and the movement in the doubtful receivables provision was not treated as part of the administrative expenses total but instead was frequently added as income below the gross profit line. The depreciation calculation was not often correctly calculated but was split in the correct ratio. Common variations in depreciation calculations were \$15 200 for buildings (i.e. incorrectly including land), \$11 500 for plant and machinery (i.e. misunderstanding that the trial balance entries already included the addition), \$4605 for motor vehicles or \$2855. The labelling of the various profit lines in the income statement had to be included correctly and stated in full. The cost of sales figure was occasionally calculated incorrectly either by mixing up the treatment of opening and closing inventory, or by using the incorrect closing inventory valuation. It was very important that workings were clearly shown and linked to the final figures used within the income statement.
- (b) This question part was omitted by many candidates perhaps as they were not aware of the statement within the published notes or were unsure of the layout to be used. Some candidates made an attempt at the question either in the form of narrative notes, or by T accounts. Many of those who did attempt it interpreted “property, plant and equipment” to mean land and buildings and plant and machinery only, so omitted any mention of motor vehicles. However, in a few cases reasonable attempts at a full layout were made, with marks mainly gained for the cost of the addition and disposal and the depreciation charges. Many were unfortunately unable to work back to the opening cost and accumulated depreciation balances and others included the loss on disposal within their answer. The net book value lines were omitted, or only provided for the year ended 2013 and not 2012.
- (c) This was quite poorly done by the majority of candidates with many not producing the correct layout for a statement of financial position or using the correct terminology. The most common errors were the incorrect naming of other payables/other receivables as accruals and prepayments as well as trade receivables and trade payables being recorded as debtors and creditors; the incorrect calculation of the trade receivables figure; the incorrect labelling of the non-current assets as fixed assets or not providing an overall total; the tax liability was often omitted completely; the bank overdraft was labelled as cash in the current liabilities section, or the overdraft balance was treated as a current asset. Candidates often used their own profit figure for retained earnings, or the original retained earnings figure from the trial balance, or listed both separately. Abbreviated labels were not accepted i.e. CA for current assets.
- (d) In contrast, those candidates who made an attempt at this part did well. Often share capital and share premium were not totalled with the individual elements listed separately. A common figure for share premium was \$65 000 with no adjustment for the bonus issue. The revaluation reserve was frequently stated as \$200 000 and the retained earnings figure did not include the profit for October.

Question 3

- (a) There were varied answers to this question. Some candidates left out year 0 and the initial outlay of \$200 000. Other errors included not deducting interest, or calculating interest at \$10 000 per annum. Sometimes the initial investment was not deducted and the flows were not totalled to arrive at a net cash flow figure for each year. Some candidates treated the interest as an inflow. As always it is important to clearly show the workings for the calculation of revenue less costs.
- (b) Many candidates managed to transfer and apply the discount factor to their own figures for net cash flows from a) within this question. Common errors included omitting the NPV label; failing to deduct the initial investment, or applying the discount factor to the gross revenue figure and not the net cash flow.
- (c) The majority of candidates knew and understood the formula for the Accounting Rate of Return. However, a large proportion of candidates did not use their own figure profits from (a) consistently. Often candidates calculated the total cash and subtracted various amounts for depreciation not realising that the asset was written off over 5 years so the depreciation would be the same as the initial cost of the investment namely \$200 000. Occasionally the gross revenue figure was used instead of \$95 455 from a). Sometimes interest was included in average investment calculation.
- (d) Overall this question was done reasonably well – a relatively high number of candidates knew and understood the formula and how to apply it. The most common problems were basic errors of addition/use of negative net present values. However, there were occasions when no workings at all were provided as to how the net present value at 40% was derived. Candidates are advised to show all workings within the final answer.
- (e) Many candidates answered this well. Valid comments were made on their own figures from previous parts of the question. Unfortunately some candidates seemed to believe that a higher IRR is not favourable. The candidate was then able to make a reasoned judgmental decision based on their own figures.
- (f) Candidates gave well-reasoned answers if they recognised that interest would not be charged by not using a bank loan. However, occasionally the amount of investment was discussed. Some candidates stated that the average investment would be higher and thus reduce the Accounting Rate of Return. Others discussed the fact that dividends would need to be paid (or compared this to the level of interest) and therefore believe that this would reduce profit and hence the Accounting Rate of Return. Only very few candidates attempted any calculations to support their answer.
- (g) Usually candidates made sensible suggestions for alternative types of finance such as preference shares, debentures, sale of surplus non-current assets and the use of a business capitalist/angel. Although explanations were sometimes lacking in sufficient detail to show an understanding of these methods. Unfortunately candidates sometimes did not read the question properly and simply restated “bank loan” and “ordinary share issue”. Hire purchase and using the owners own capital or retained earnings were not acceptable answers.

ACCOUNTING

Paper 9706/42
Problem Solving

General Comments

Many candidates were well prepared both in examination techniques and on individual subject areas. The majority of candidates were able to access the paper and attempt each question to some extent. There were no apparent timing issues. Although there appeared to be an improvement in the written evaluative sections of questions, most notably **Question 1(f)**, the main area of concern was the persistent inability of some candidates to show sufficient workings. This often compromised the students' ability to score well. All workings should be identified and referenced back to the final answer. Candidates should also read the detail within the questions very carefully to ensure they provide their responses based on the question requirement. Candidates were able to produce detailed answers to the partnership, **Question 1**, but the correct wording for a statement of financial position was often not used in **Question 2**. Some candidates incorrectly listed the individual expenses within the income statement rather than as either distribution costs or administrative expenses. The layout of answers supported by workings was especially important in **Question 3** for the net cash flow and net present value, although there seemed to be some improvement in the answers to the cost and management accounting questions.

Comments on specific questions

Question 1

- (a) This part of the question was dealt with well by the vast majority of candidates. The main problems were to do with the calculation of the sales and purchases figures. Common answers were \$85 000 or \$105 000 for sales and \$55 000 or \$85 000 for purchases. Most candidates then proceeded consistently to calculate the gross profit based on the given margin and arrived at the closing inventory accordingly. A few candidates worked backwards from the 40% gross profit. There was a little confusion over the treatment of loan interest – some candidates did not realise it was a loan from a partner and treated it as an appropriation of profit. Labelling in the income statement was variable. Some candidates inappropriately used abbreviations such as GP for gross profit.
- (b) There were mixed answers to this part of the question. The opening balance was often treated as a credit balance and loan interest was omitted. The majority of candidates included the profit share but relatively few brought the closing balance down. Unfortunately some candidates produced either the current accounts for all partners thereby wasting time or alternatively did not produce an account at all but a working. Candidates are advised not to use brackets within an account.
- (c) The gain on revaluation and goodwill adjustments were handled well by most candidates. Although as these were sometimes offset against each other detailed workings needed to be shown. The most common omissions were the motor vehicle, Tan's loan (either completely omitted, or one part of the transaction only completed or reversed) and the current account balance. Relatively few candidates brought down the remaining partners' balances. A small number only included current account items for all partners or current account balances for Ann and Jan. A few candidates did not seem to understand that Tan had left the partnership and recorded both a bank payment to him and a closing balance.
- (d) This part was either answered well or not at all with some candidates not knowing the formula or how to apply it. A few candidates made errors in their calculation of the dividend. A common error was $8\% \text{ of } \$24\,000 = \1920 so the yield was 0.96%. Candidates are encouraged to remember to state the answers to formulae correctly, in this instance with a % sign as the label.

- (e) Where the formula was known, candidates were able to apply their answers from d).
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ACCOUNTING

Paper 9706/43
Problem Solving

Key Messages

Candidates should prepare fully across all areas of the syllabus when attempting this paper.

General Comments

Overall performance was pleasing with some very good scripts. Well prepared candidates were able to score high marks for all questions.

There was no evidence of time pressure and nearly all candidates answered the three questions fully.

Comments on Specific Questions

Question 1

- (a) This calculation of net assets was performed very well by most candidates with many scoring full marks. The most common error was the inclusion of cash and cash equivalents in the calculation.
- (b) This was a straightforward calculation and was completed correctly by most candidates.
- (c) Most candidates were able to calculate the number of shares correctly. Few candidates who had made an error in part (b) were still able to achieve full credit for this part.
- (d) Most candidates produced an acceptable statement with a significant number achieving full marks. Some candidates omitted the goodwill entry and a few made errors on the share premium account.
- (e) Responses to this part were unsatisfactory. Only a few candidates could give appropriate reasons such as reputation, location etc. to explain why directors were prepared to pay more than the book value of the assets.
- (f) This part tested knowledge and understanding of IAS 36 and IAS 38. The majority of candidates demonstrated their knowledge of IAS 36 but were unable to provide the required explanation using IAS 38.

Question 2

- (a) The capital accounts were produced to a high standard by most candidates. The goodwill and revaluation adjustments were handled very well. Candidates need to understand that it is also important to balance the accounts and bring down the balances.
- (b) The statement was well prepared by most candidates with many achieving full marks.
- (c) Most candidates made the correct entries to the capital accounts. It is important that candidates should read the question carefully. A few candidates prepared current accounts despite the question stating that these accounts were not maintained.
- (d) This part was less well answered than the other parts. Many candidates need clarity on how to deal correctly with the premium on the ordinary shares.

- (e) Most candidates answered this part well and many candidates who made errors in part (d) obtained full credit by recording their own values.
- (f) This part was answered well by most candidates. Candidates need to understand the difference between dividends and interest as a few candidates used the two interchangeably.

Question 3

- (a) Nearly all candidates scored full marks for this part.
- (b) Most candidates answered this correctly. Only a few candidates did not deal with opening and closing inventory correctly.
- (c) The purchases budget was prepared well. Most candidates, however, did not calculate the closing inventory for March correctly as they had not calculated the sales and production for April in parts (a) and (b).
- (d) Many candidates only recorded sales, opening and closing inventories of finished goods and purchases to obtain the gross profit. Candidates should have accounted for the raw materials, direct labour and manufacturing overhead to obtain full marks. A few candidates produced trading accounts for the individual months rather than the account for the three month period which was asked for in the question.