

ACCOUNTING

Paper 9706/12
Multiple Choice

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

Key messages

Overall, the paper was well attempted by the majority of candidates.

General comments

Of the total candidates, 68 per cent achieved a score of 15 or more correct answers. A number of questions appeared relatively straightforward from the data: **4, 5, 6, 12, 18, 21** and **23**, where more than 75 per cent of candidates identified the correct option. There were three questions where the number of candidates indicating the correct response was below 30 per cent. These are reviewed here.

Specific questions

Question 9

This required candidates to consider the valuing of inventory at the lower of cost and net realisable value. The inventory consisted of 450 'good' units, which could be valued at cost of \$10 each = \$4500. The remaining 50 units could normally be sold for \$15 each, but required repair work of \$7 per unit. Thus their net realisable value was \$8 per unit, lower than their cost of \$10. These 50 units should be valued at \$8 each = \$400 in total, making the total value of inventory \$4900, the key **C**.

Question 22

Candidates were required to identify the correct statements from the four given in respect of the use of absorption costing. Only two statements were correct: 1 and 4, thus the key was **B**.

Question 27

Although more than 30 per cent of candidates identified the correct key, this question is worth reviewing. The key was **C**, but more candidates opted for D. This was because they used the whole of the fixed costs in their calculation. From the given data some of the fixed costs (\$24 000) were covered from the sale of product Y. This should have been deducted from the total fixed cost figure when calculating the answer.

Question 30

This again was a question which required candidates to identify correct statements from those given. All the statements given were correct, thus the key was **A**.

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Paper 9706/22
AS/A Level Structured Questions

Key messages

Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings.

In written questions, candidates should make sure that they provide sufficient development to their answers. One or two word answers will seldom suffice.

General comments

Whilst there was much good work, many candidates did not prepare well for the written questions. This was particularly noticeable in both **Question 1** and **Question 4** where candidates were required to give advice. It is always the case that advice must be supported by relevant justification and only the best prepared candidates were achieving this.

It must be stressed to candidates the importance of the correct narrative details in both journal entries and double entry accounts. The detail must always be the corresponding account in the double entry.

Comments on specific questions

Question 1

- (a) Required candidates to explain two benefits of using control accounts. Whilst most candidates were able to state the benefits, there was a clear lack of development of the points stated. For example, many candidates correctly stated that they help prevent fraud, however only a small minority developed this to explain how.
- (b) Preparation of the sales ledger control account was generally well done with a number of candidates awarded full marks.
- (c) Preparation of the purchases ledger control account was less well done. Few candidates dealt correctly with the closing debit balance on the account, many electing to show the debit balance as an opening balance.
- (d) Most candidates were able to prepare reasonable statement of financial position though some did not reduce the long term loan by the amount paid during the year and also did not recognise that the debit balance on rent was a prepayment.

- (e) The final part of the question required candidates to advise the trader, with justification, whether or not the business was more profitable than a competitor's business. Few candidates gained more than average marks for this question. Again, the problem was a lack of development for the points raised. Whilst most pointed out that Delph had a higher gross margin but lower profit margin, few were able to offer sufficient explanation as to why this may have been the case.

Question 2

- (a) The first task required candidates to prepare journal entries for a share issue for cash, a bonus issue and a rights issue. Whilst some candidates answered this question well, too many demonstrated little knowledge of the entries required. The details column of the journal entries was often either inaccurate or missed entirely.
- (b) Having produced the journal entries, the next stage was to prepare a statement showing the effect of the share transactions on total equity. This was not answered well.
- (c) Recalling three uses of a share premium account usually resulted in either full marks or zero marks.
- (d) This was not answered well. Many candidates were of the opinion that it raised cash and only better candidates recognised that it was a way to liquidate capital reserves, usually the share premium account that was not available for the payment of dividends.

Question 3

- (a) The first two tasks required candidates to state two advantages and two disadvantages to the existing partners of introducing a new partner. The majority of candidates gained either three or four marks for the question. The common error was that those who stated the sharing of profits as a disadvantage and the sharing of losses as an advantage were only awarded one of the marks.
- (b) Calculation of the profit or loss from revaluation was well answered though less well-prepared candidates incorrectly shared the profit between all partners rather than just the original partners.
- (c) Preparation of the partners' capital accounts was well attempted by many candidates, with a large number of candidates gaining full marks.
- (d) Candidates were less sure of the reasons why an adjustment for goodwill was required when a new partner joins a business. The key to the answer was recognising that this acts as a reward to the existing partners for building the business and its reputation.
- (e) Almost all candidates were able to state two factors that may result in the creation of goodwill for a business.

Question 4

- (a) Responses were very mixed on naming the accounting term when splitting service department costs; many candidates simply offering absorption costing as the term rather than apportionment. Similarly, most candidates offered only a vague explanation of how the cost of direct materials is charged to each production department.
- (b) The majority of candidates were able to correctly state the basis for splitting factory rent and depreciation between departments.
- (c) Calculating the inventory value of one unit of production was very mixed, showing a lack of understanding of the difference between marginal costing and absorption costing.
- (d) Many candidates were able to correctly calculate the budgeted profit using both methods based on their own figures.

- (e) The discursive question requiring advice was not answered well. Despite the instruction that justification should be based on both financial and non-financial factors, many candidates concentrated only on one or the other.
- (f) Calculation of the overhead absorption rate showed that candidates are often unsure whether to use the actual data or the budgeted. It should also be noted that when calculating an overhead absorption rate, it is never acceptable to merely state the figure; the basis (i.e. per labour hour) must also be recorded.
- (g) The final task required calculation of the over/under absorption of overheads. Whilst responses were very varied, most well-prepared candidates were able to get full marks.

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<p>Paper 9706/32 AS/A Level Structured Questions</p>
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General comments

Overall candidates performed reasonably well.

Comments on specific questions

Question 1

- (a) The manufacturing account was prepared to a high standard by most candidates with a limited number scoring full marks. Most common errors were the incorrect treatment of carriage inwards and rent and rates within the factory overheads section.
- (b) Most candidates prepared a correct extract but a few did omit the heading.
- (c) Although most candidates correctly stated the prudence concept, relatively few identified the realisation concept.
- (d) Candidates did not answer this question well. Explanations often mentioned overvaluation but the development was generally not satisfactory. The analysis was merely a repeat of the explanation in many cases rather than a consideration of the effect on profit.

Question 2

- (a) Many candidates correctly calculated the profit as required. The most common errors were the omission from the statement of the bicycle taken as drawings and/or the cash payment made by Raj to John.
- (b) Nearly all of the candidates who had calculated the profit correctly or made a limited number of errors were then able to prepare the joint venture accounts to a high standard.
- (c) Most candidates were able to state a benefit of the joint venture.
- (d) The advice provided was generally not satisfactory. Although most answers included advantages and disadvantages of partnership, very few applied their answer to the scenario. Few candidates supported their response with appropriate calculations.

Question 3

- (a) The statement to calculate the operating expenses was well answered with a significant number of candidates scoring full marks. The statement to calculate the expected additional profit was less well answered with many not accounting for the resulting increase in gross profit.
- (b) Many candidates answered the question correctly.
- (c) The statement of financial position was prepared to a high standard with some scoring full marks and a large majority being awarded at least eight of the available eleven marks. Common errors included the omission of goodwill and the revaluation reserve.
- (d) This was generally well answered. Nearly all candidates provided a decision and in most cases the justification was appropriate.

Question 4

- (a) This was well answered with most candidates demonstrating knowledge of the respective roles.
- (b) Most candidates were able to state a reason why a sole trader does not require an audit of financial statements.
- (c) This was well answered with a significant number of fully correct calculations of the adjusted profit. The most common error was the omission of the interim dividend paid during the year from the calculation.
- (d) Explanations of the accounting treatment of the required items were generally not satisfactory for inventory valuation but reasonably well-attempted for the dividends.
- (e) Overall most candidates prepared the statement of changes in equity correctly. Some candidates used the retained earnings rather than the share premium for the bonus issue and/or did not label the closing balances.
- (f) Candidates did not answer this question well. A lack of knowledge of the content of the audited financial statements was apparent in many answers.

Question 5

- (a) Responses were generally satisfactory although many considered budgets rather than budgetary control as required.
- (b) This was very well answered with many candidates being awarded all of the nine available marks with no common errors.
- (c) Responses were generally satisfactory with most candidates addressing the main control aspects of budgeting.
- (d) This was less well answered with some candidates discussing causes of favourable variances which was not asked and therefore did not receive any credit. Many candidates only raised the issue of unskilled labour.
- (e) Most candidates scored the available decision mark but the justification of the decision was generally limited with relatively few identifying that there was an overall favourable variance.

Question 6

- (a) This was answered to a reasonable standard with most explaining the time value of money difference but fewer explaining the cash flow difference of the two methods.
- (b) The calculations were well presented – most were able to calculate the payback period correctly as well as the net present value with many scoring the eight available marks for the net present value. Although many did calculate the average rate of return correctly, common errors included not calculating the average investment and not adjusting the average profit for depreciation.
- (c) This was also well answered with some candidates scoring full marks. Nearly all offered a decision but some candidates did not compare the machines within the justification.