

ACCOUNTING

Paper 7707/12
Multiple Choice

Question Number	Key	Question Number	Key	Question Number	Key
1	D	13	C	25	B
2	C	14	B	26	D
3	C	15	B	27	A
4	C	16	A	28	D
5	B	17	A	29	C
6	A	18	D	30	B
7	C	19	D	31	D
8	B	20	C	32	B
9	D	21	C	33	B
10	A	22	B	34	C
11	D	23	D	35	B
12	B	24	A		

Key messages

It is important that candidates have a thorough understanding of accounting and are familiar with all the topics on the syllabus.

Candidates are advised to read each question very carefully to ensure that they have a clear understanding of exactly what is required before selecting an option on the answer sheet.

General comments

Those candidates who possessed a good understanding of double entry and the financial statements of various types of organisations were able to select the correct key to many questions on the paper.

Comments on specific questions

Question 4

The amount transferred to the income statement for insurance was lower than the amount paid during the year. This indicates that there was a prepayment at the year-end. The amount transferred to the income statement for rent was greater than the amount paid during the year. This indicates that there was an accrual at the year-end. The key was **C**.

Question 6

A cheque counterfoil is a source document for a credit entry in the bank column of the cash book as it records a payment made by cheque. A cheque may be sent to a supplier but the cheque counterfoil always remains in the cheque book. The key was **A**.

Question 9

Reading the question carefully, candidates should have noted that this question was asking them to select the statement which was incorrect. Options **A**, **B** and **C** are all correct statements about a petty cash book using the imprest system. The key was **D**.

Question 10

If a sales invoice is incorrectly entered in the sales journal this will automatically result in incorrect entries in both the sales account and the account of the individual credit customer. Both the debit and credit totals of the trial balance will be affected. In this scenario both accounts were overstated by \$1000 so the key was **A**.

Question 11

The key was **D**. Where a payment is made by standing order this must be recorded in the accounting records even if the entries are not made until after the receipt of the bank statement. In this case it is necessary to make entries in the cash book and the rent account in the nominal (general) ledger to ensure accuracy of the double entry records. Items appearing on the bank statement but not in the cash book do not appear in the bank reconciliation statement.

Question 12

The bank statement showed that a business had a positive bank balance of \$2690. On the same date there were unpresented cheques amounting to \$850. These would have been recorded on the credit side of the cash book when they were issued. This would result in the bank balance in the cash book being \$850 lower than that shown on the bank statement. It should be remembered that the bank statement and the cash book are recorded from different perspectives so the bank column in the cash book would show a debit balance of \$1840 (option **B**).

Question 14

Using the straight-line method of depreciation Company G would charge \$1500 depreciation annually. Using the reducing balance method of depreciation Company H would charge \$2000 in year 1 ($20\% \times \$10\,000$) and charge \$1600 in year 2 ($20\% \times (\$10\,000 - \$2000)$). In year 2 the depreciation charge of H was \$100 greater than of Company G.

Question 15

The vast majority of candidates appreciated that every entry in the ledger must have a debit entry and a credit entry, but many of these candidates did not select the key, **B**. When rent is prepaid at the end of a financial year it is credited to the expense account and carried down as a debit balance. This ensures that the account starts the following year with a debit balance which is an asset.

Question 16

There was some uncertainty about this question. The closing inventory was overstated by \$160 (\$340 – \$180) because of the damaged inventory. However, it was understated by \$100 because some items had been valued at \$7 each instead of \$8 each. Overall the inventory was overstated by \$60. Overstating the closing inventory means that the gross profit is also overstated by the same amount. The key was **A**.

Question 18

The capital and liabilities section of a statement of financial position shows where the resources of the business have come from (option **D**). A number of candidates incorrectly selected option **C**. The capital and liabilities section does show the amounts *owed by* the business – but not the amounts *owed to* the business.

Question 19

The key was **D**. The purpose of a statement of financial position is to provide a summary of the financial position on a certain date by listing the assets, liabilities and capital. This statement automatically shows that the assets equal the liabilities plus the capital: but that is not the purpose of the statement.

Question 23

The capital employed by BCD Limited was \$670 000, which represented the total funds being used by the company. The equity was \$500 000 which represented the total funds provided by the ordinary shareholders. The key was **D**.

Question 24

The retained earnings of CD Limited at the start of the year were \$86 000. The profit for the year should be added and the transfer to reserve deducted making a total of \$107 000. As the retained earnings at the end of the year were only \$88 500 the difference must equal the ordinary share dividend paid. The key was **A**.

Question 26

Calculating the subscriptions received during the year proved to be challenging at times. The subscriptions actually received during the year could be calculated as –

Total subscription for the year (\$6000), add the amount prepaid for next year (\$600) add the amount accrued at the start of the year (\$720) less the amount accrued at the end of the year (\$480). The key was **D**.

Question 29

The profit for the year before interest expressed as a percentage of the total funds employed by a business represents the return on capital employed. The key was **C**.

Question 31

The gross margin is the gross profit expressed as a percentage of the sales. This is not affected by the expenses nor is it affected by the quantity of goods being sold. If the cost of sales decreases the gross margin would increase. If the gross margin decreases it could be a result of a decrease in the selling price (option **D**).

Question 32

Comparing two businesses, Sam had the better return on capital employed and the higher current ratio, so options **A** and **C** are incorrect statements. No information is provided about the selling prices so option **D** cannot be considered. Rob's expenses as a percentage of sales were 20 per cent and Sam's were 13 per cent so the key was **B**.

Question 34

Profit is regarded as earned when the legal title to goods passes from the seller to the buyer. In this scenario the legal title passed to Joe on Wednesday (key **C**).

Question 35

The responses indicated a degree of uncertainty about the requirements of the accounting objectives of comparability, relevance and reliability. Relevance requires that financial information is provided in time for business decisions to be made. The key was **B**.

ACCOUNTING

Paper 7707/13
Multiple Choice

There were too few candidates for a meaningful report to be produced.

ACCOUNTING

Paper 7707/22
Paper 22

Key messages

The format of this paper is now well established following its introduction in 2020 with five questions of 20 marks each and discussion style answers that result in a business recommendation being made by the candidate. There is a clear improvement by candidates on answering this style of question which is very encouraging, but at the same time the need remains to be able to record and process accounting information accurately upon which to base sound commercial decisions.

This paper is a balanced assessment with a standard to comparable years and well prepared candidates should have found this relatively straightforward whilst finding themselves suitably challenged by **Questions 3 and 5**.

General comments

There is a clear need for candidates to have a firm grounding in applying double-entry bookkeeping techniques. There is a need to revisit and reinforce these techniques so that they can be applied for example in **Questions 1, 4 and 5**. Candidates who performed less well often only had a superficial knowledge of these techniques and this was accompanied with poorly presented financial statements that lacked appropriate narratives or contained incomprehensible abbreviations. Examples regularly seen were 'referring to depreciation (dep), provision for doubtful debts (Prov for DD) and Gross profit (GP)'. Where a recommendation is a required outcome of the **Question (1d, 5b,)** candidates should indicate it clearly, without giving conflicting suggestions.

Where candidates cross out answers or make an addition/alteration at a later stage it is most important that they instruct the Examiner for example 'refer to page 21 of the answer booklet'.

Comments on specific questions

Section A

Question 1

- (a) This question required the construction of a sales and purchase ledger control account. This is usually a popular topic and covered both aspects of the sales and purchase ledgers. Surprisingly there very few fully correct answers. Common errors were the inclusion of items that should not appear in the account such as 'cash sales', 'cash purchases' and 'provision for doubtful debts'. The impact is that the closing balances are therefore 'corrupted' and cannot be used for 'checking/control' purposes. The entry of items on the wrong side of the accounts usually indicated a poor understanding of 'double-entry' and the closing balance on the sales ledger control account was often omitted although it was supplied in the question.
- (b) Tested the knowledge of candidates to identify where source documents are posted into specific books of prime entry. Responses were very mixed, 2 marks were regularly gained for returns and discounts allowed, however interest charged and contra entries were often answered incorrectly indicating a lack of understanding of the purpose of the general journal and the link to the posting of source documents.
- (c) The reason why a credit balance can occur in the sales ledger account was not well answered. There was a common misunderstanding that the balance had been brought forward from another

period but did not give a reason for the balance such as 'overpayment' or 'payment in advance by a customer'.

Question 2

- (a) This was generally well answered and candidates demonstrated a good understanding of how to construct a trading account. A common error was to confuse the opening and closing inventory figures and to arrive at a gross profit of \$54000. An own figure mark was awarded for the net profit calculation but this figure was corrupted by items such as trade payables and receivables in weaker responses.
- (b)(i) Gross margin is a straightforward ratio calculation and full marks were often obtained. It is essential to show formulas and workings in order to gain all marks. The trade payables turnover was occasionally based on 360 days and this is not a recognised standard calculation.
- (ii) Again this was generally well answered demonstrating a clear understanding of the dynamics required to improve a gross margin. The key is to increase selling price or reduce the cost of sales by sourcing cheaper supplies. Weaker answers just mentioned increased sales, which would not impact upon the margin, or simply said 'reduce the cost of sales' but gave no reason on how this change could be achieved.
- (c) Required a standard ratio calculation for the trade receivables turnover and this was well answered. Weaker answers were evidenced by the use of an incorrect denominator such as purchases (\$109 000) or made a correct calculation but did not round up to the next whole day.
- (d) This question required the candidates to advise a business owner whether to allow an extra 14 days' credit before his customers pay their invoices. The answer required a detailed look at either the advantages or disadvantages of the proposal or a balanced approach that considered both the pros and cons of the scenario. Whichever approach was considered this could then be used to support a clear recommendation. Well prepared candidates scored high marks with logical points being made and linked to increased sales and improved customer relations. The question gave a clear indication of the reason for the proposal as 'Jabir wants to increase his credit sales' and the less informed answers did recognise the possibility of increased irrecoverable debts although often were unable to contribute further relevant points.
- (e) Required a standard ratio calculation for the trade payables turnover and was generally very well answered. As in (2c) incorrect denominators were used, formulas inverted or a correct calculation followed by not rounding up to the next whole day, this being a standard approach to reporting trade receivables/payables turnover ratios.
- (f) There were a range of answers that demonstrated a clear understanding of the reasoning behind increasing purchases in order to obtain a 100 per cent increase in trade discounts. Good answers focused on the reduced cost of sales/purchases leading to increased gross profit. The downside could be increased inventory and associated inventory holding costs and obsolete goods. The overall approach to the answer is the same as in (2d) requiring a detailed look at either the advantages or disadvantages of the proposal or a balanced approach that considered both the pros and cons of the scenario. Whichever approach was considered this could then be used to support a clear recommendation.

The weaker answers tended to focus on improved profits which did not necessarily follow and needed to be linked to additional points within the mark scheme.

Question 3

- (a) The manufacturing account is a financial statement that has a well established format. It should be recognised by candidates with the same degree of importance as income statements and statements of financial position. However, many answers contained a poor layout and a lack of structure that defines the purpose of arriving at the total cost of goods manufactured.

The most common errors were extraneous items such as factory overheads being included within the prime cost section and missing labels for the 'cost of materials consumed' and 'prime cost' that represent important stages within the construction of the account. The weaker candidates would

also include all categories of inventory and this seemed to indicate unfamiliarity and or a lack of practice with this type of statement.

On a positive note most candidates were able to calculate depreciation correctly and dealt competently with the accrual and prepayment adjustments required in the overheads section of the account.

- (b) Following on from the manufacturing accounts in (2a) candidates were required to produce the trading account for the company. This is a familiar statement for most candidates and this question was very well answered. There were two common errors made however. Firstly the omission of the cost of production figure that needed to be brought in from the previous manufacturing account. Secondly carriage inwards is a component of the cost of sales calculation but often this was missed out. It is important to emphasise that the statement has a recognised order of construction and appropriate labels that must be followed.
- (c) The last two parts of this question concerned a customer that had become an irrecoverable debt due to bankruptcy. An entry was required to record the amount into the journal and both marks were generally gained. The errors most often seen were to credit KA Ltd instead of the customer DH Ltd, or to debit and credit the names of both companies.
- (d)(i) The theme of irrecoverable debts and the need to maintain a provision for doubtful debts was further explored by requiring an explanation of how the accounting principle of matching is applied. The mark scheme is very precise and weaker responses included discussions regarding the general matching principle instead of applying it specifically to the doubtful debt provision.
- (ii) This final part to the question required a link to be made between doubtful debts and the prudence concept. Answers were much better and candidates clearly grasped the need not to overstate profits or the value of trade receivables in the accounting statements. The message here is to look carefully at the question in order to determine if the principles require a general explanation or as in this case they needed to be tailored to the specific accounting aspect of doubtful debts.

Question 4

- (a) This question required four journal entries to be made correcting errors that had been discovered following the production of the trial balance. Ten marks were available and answers were generally very good. Candidates who have a grounding in double entry bookkeeping find this exercise as straightforward and achieved high marks. The purpose of the exercise is to correct the ledger accounts and when carried out correctly it will eliminate any suspense account amount that has been generated to produce the trial balance in **part (4b)**.

The process of error correction through journal entries is a regular exercise in manual and computerised accounting systems and the importance of understanding this routine for candidates cannot be over-emphasised.

- (b) There were few fully correct answers to this question that required the writing up of the suspense account and the elimination of any balance within the account. A clear understanding of double entry bookkeeping allows candidates to follow the information route from the journal into the suspense account. Not all of the errors will pass through the suspense account (see error 4), but weaker answers would often include all of the error corrections.

This area of the syllabus covered in **parts (4a and b)** should be viewed as a logical exercise starting with error correction, the writing-up of the journal and then the transfer of entries from the journal into the suspense and appropriate ledger accounts. This holistic system approach will help to develop the level of candidates understanding of these topics.

- (c) The last part of this question required a review of the errors already given and to determine their individual increase or decrease upon profit after carrying out any corrections. The question was on average reasonably well answered as logic could be applied to expenses/revenues under or overstated would indicate the numerical impact upon profits. The simple layout resulting in overall profit/loss for the year seemed to phase some candidates. The total of the increases less the total of the decreases results in a net change which is then added to the initial profit. There were many examples of both columns being added together or the initial profit being omitted from the final calculation.

Question 5

- (a) This final question was by far and away the most challenging for candidates and represented 15 marks in total. The requirement was to produce three ledger accounts that would record the disposal of a non-current asset (delivery vehicle), the calculation of the depreciation charge over two accounting periods and finally to ascertain any profit or loss to transfer to the income statement through a disposal account.

There were few fully correct answers. The disposal and provision for depreciation accounts require practice and as mentioned earlier relies upon double entry bookkeeping skills to update the accounts correctly. The majority of errors can be classified as follows:

- entries on the wrong side of the account
- all entries included in the vehicles or in the provision for depreciation account
- no entry for disposal in the provision for depreciation account
- incorrect narratives for income statement, disposal and bank entries
- combination of the above errors.

- (b) The remaining 5 marks were awarded for the consideration of whether Simon should change the method of charging depreciation from straight line to reducing balance for his business. Responses could be described as weak, with many answers concentrating on the resulting value in the event of a sale of a vehicle and which method would give the most profit to the business owner. Emphasis needed to be placed upon the most suitable methods for a vehicle to be depreciated and if it would give the most accurate net book value.

There were some good comments that recognised the importance of the 'consistency' principle and this could be factored into any qualities that were mentioned for both methods. The reducing balance featured predominately in most answers, more contrasting points could have been considered given that the business currently uses the straight-line method of calculating depreciation.

ACCOUNTING

Paper 7707/23
Paper 23

Key messages

It is very important that candidates read through each question very carefully to ensure that they understand exactly what the question requires. This should also mean that a vital piece of information is not overlooked and that the instructions can be followed precisely.

Candidates are reminded that clear handwriting is essential. There were many instances when it was extremely difficult to decipher both words and figures.

It is advisable to show calculations where appropriate. This ensures that some of the available marks may be earned even though the final answer is incorrect.

In most instances the spaces provided on the question paper for candidates' answers were adequate. Where it is necessary for a candidate to cross out all or part of their answer and provide another answer elsewhere it is important that they indicate the page number where this answer can be found. Candidates should also indicate which version of the answer is to be marked by crossing out the incorrect version.

The use of inappropriate abbreviations should be avoided. These include things like 'COGS' for cost of goods sold' and 'PDD' for provision for doubtful debts'.

General comments

As all the questions on the paper are compulsory it is important that candidates are familiar with all the topics on the syllabus. All the day-to-day records of a business are based on double entry bookkeeping and a good knowledge of this is essential.

Candidates are expected to present financial statements using an acceptable format. In ledger accounts it is important to pay attention to the words in the details columns as well as the dates and amounts.

It is important that candidates think very carefully before attempting to answer questions which require them to provide advice on a particular course of action. Preparing a preliminary list of points to be covered may assist candidates to provide a coherent response. Good answers set out the advantages, the disadvantages and then provide a clear recommendation.

Comments on specific questions

Question 1

- (a) Candidates were required to calculate the purchases for the year. This was acceptable in the form of either a numerical calculation or a ledger account. Information was provided about the opening and closing trade payables and the payments made during the year. Many included extraneous items such as equipment. Others incorrectly tried to calculate the purchases using the sales revenue and the mark-up.
- (b) An income statement had to be prepared. The amounts of sales revenue and opening inventory were provided. The purchases should have been the amount calculated in **Part (a)**. The mark-up was 25 per cent so the gross profit was 20 per cent of the revenue and the cost of sales was 80 per cent of the revenue. The closing inventory had to be inserted as a missing figure.

Some candidates were unable to calculate all the items in the trading section correctly, but, sensibly inserted the profit and loss section items and so gained some of the available marks.

Common errors in the profit and loss section were

- including extraneous items, such as equipment
- incorrect labelling of items 'Equipment' instead of 'Depreciation of equipment'
- omission or incorrect treatment of the adjustments on the expenses.

- (c) The majority of candidates correctly identified the principle of business entity.
- (d) Candidates had to discuss the implications of a trader valuing his closing inventory at selling price. A number of candidates incorrectly discussed the implications of the impact of an increase in selling price on the trader and his customers. The principles of consistency, prudence and the objective of comparability should have been discussed in relation to inventory in addition to the rule of valuing inventory at the lower of cost and net realisable value.

Question 2

- (a) Four items of expenditure had to be classified as either capital or revenue expenditure. Most candidates gained at least half of the available marks.
- (b) Candidates had to advise a trader whether to rent or to purchase a warehouse. Many answers only considered one aspect – concentrating on either renting or purchasing – rather than providing a balanced answer. Several answers tried to compare the revenue expenditure of rent with the capital expenditure of the purchase. Others concentrated on the possible sale of the warehouse at some point in the future rather than concentrating on the immediate decision. Several candidates did not provide a recommendation.
- (c) Using data provided a fixtures account and a provision for depreciation account had to be prepared. Many responses demonstrated that this question seemed challenging. A common error in the fixtures account was the inclusion of extraneous items such as the proceeds of sale and depreciation.

Many responses included issues preparing the provision for depreciation. The calculation of the depreciation for the year was frequently incorrect: if calculations had been shown it may have been possible to award some of the available marks.

Other common errors included

- incorrect calculation of the depreciation for the year
 - incorrect calculation of the total depreciation on the asset sold
 - incorrect details such as 'depreciation' in lieu of 'income statement'.
- (d) A fixtures disposal account had to be prepared. Most responses demonstrated a reasonable attempt and tried to include the appropriate items. Common errors included
- Incorrect figure for the cost of the asset transferred from the fixtures account
 - Incorrect details such as 'loss' in lieu of 'income statement' and 'depreciation' in lieu of 'provision for depreciation'

Question 3

- (a) Journal entries were required to correct four errors. Many candidates earned high marks on this question. Some responses included incorrect descriptions of the errors instead of accounts names in the details column. In error 2 a number of responses provided entries to cancel the error but did not include any entries to correctly record the original transaction. Error 4 proved to be challenging for some. The bank account had to be debited with \$1200, the suspense account and the insurance account had each to be credited with \$600. Alternate answers were accepted to allow for those responses that included a different approach by debiting the bank and crediting the suspense account with \$1200 and then debiting the suspense account and crediting the insurance account with \$600.

- (b) Candidates were required to prepare a suspense account. A few responses included a reversal of the account, but many gained goods marks. Once again alternative answers were accepted depending on the treatment of error 4 in **Part (a)**.
- (c) The majority of responses demonstrated the ability to correctly identify two types of error not disclosed by a trial balance.

Question 4

- (a) Using data provided, candidates were required to prepare ledger accounts for rent and electricity which included opening and closing accruals or prepayments. A number of responses earned full marks.

The electricity account proved to be less challenging than the insurance account.

Common errors included

- opening balance on the wrong sides of the accounts
 - incorrect details such as 'refund' in lieu of 'bank'
 - entering the refund on the debit side of the insurance account
 - deducting the insurance prepaid at the year-end from the payment made on 13 August
 - omitting to bring down the closing balance
 - dates inaccurate or omitted.
- (b) Candidates were required to advise a trader whether to change to a new electricity supplier. Many responses included only the advantages or the disadvantages rather than providing a balanced answer. A number of responses incorrectly focussed on the relationship with a supplier of goods for resale and discussed factors such as trade and cash discount and late supplies. Several responses did not include a recommendation.
- (c) A rent receivable account had to be prepared using data provided. This proved to be challenging for many and some responses did not demonstrate familiarity with income accounts that included a prepayment. Common errors included
- complete reversal
 - deducting the rent prepaid at the year-end from the amount received on 8 August
 - incorrect entry for the transfer to income statement
 - dates inaccurate or omitted.
- (d) Candidates had to identify the section of the statement of financial position at the year-end in which the balance of the rent receivable would appear. Many responses included the incorrect identification of the rent receivable prepaid as a current asset. Some responses included the incorrect inclusion of 'expenses' or 'income'.

Question 5

- (a) The subscriptions account of a sports club had to be prepared. There were some strong responses, but many demonstrated that this question seemed challenging. Common errors included
- incorrect details such as 'subscriptions' in lieu of 'bank' (or 'cash') and 'income statement' in lieu of 'income and expenditure account'
 - netting the two opening balances and netting the two closing balances
 - entering the balances on the wrong sides of the account
 - omitting the irrecoverable debts or deducting them from the opening debit balance
 - including extraneous items such as expenses and non-current assets
 - incorrectly regarding the account as either a receipts and payments account or a bank account.
- (b) Using data provided an income and expenditure account had to be prepared. Some responses earned reasonable marks whereas others demonstrated that this question was challenging.

Common errors included

- including extraneous items such as the amount received for subscriptions instead of the subscriptions for the year as calculated in **Part (a)**
- not setting the expenses against the income for the dance (and similarly for the competition) which meant that the profit on each activity was not shown
- omission of irrecoverable debts and expenses accrued
- incorrectly calculating the depreciation for the year
- incorrect terminology such as 'Profit for the year' instead of 'Surplus for the year'

- (c) Candidates were required to advise the treasurer of a sports club whether to offer a reduction in subscription fees to those members who pay in advance. Many responses included only the advantages or the disadvantages rather than providing a balanced answer. Some responses merely included a re-iteration of the data 'to encourage more members to pay their subscription in advance'. Others incorrectly concentrated on the effect on members who were not able to pay in advance. Several responses did not provide a recommendation.