

ACCOUNTING

Paper 0452/12 Paper 12

Key messages

When preparing ledger accounts labels such as BBD and BD are not acceptable. Ideally balance b/d or c/d should be written.

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

Candidates should also use the correct terminology in questions concerning clubs or associations.

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

General comments

Overall candidates performed well in this paper with several achieving extremely high scores. Candidates seemed to find the written aspects slightly more challenging than the numerical questions. Candidates frequently did not complete an answer accurately when the general approach was otherwise correct and did not get full credit. Examples of this is in not providing correct dates in ledger accounts, not identifying correct names of partners in an appropriation account, not indicating an overdraft balance on a bank account or bank statement.

Comments on specific questions

Question 1

This question comprised 10 multiple choice items. There were only a few instances where candidates made no attempt at a particular answer.

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

- (c) Candidates found this question challenging. Candidates need to revisit manufacturing accounts and recognise what is actually being calculated in a manufacturing account.
- (d) It is possible candidates did not appreciate that the question was concerned with Narinder's draft statement of financial position.
- (h) Many candidates calculated the gross margin or the profit per cent but not the mark-up.
- (j) Candidates should be encouraged to prepare a 'T' account where looking at entries in ledger accounts.

Question 2

- (a) Most of the candidates answered this question correctly.
- (b) This question was also answered very well. The majority of candidates understood the purpose of a debit note citing sent for receipt of faulty goods being the most common response.
- (c) Most candidates correctly identified sales returns journal as the correct book of prime entry; however, other common answers were sales, sales returns ledger or general journal.
- (d) This was reasonably well answered with most candidates using sales rather than debtors ledger.
- (e) Most candidates correctly identified this as trade discount, although some did refer to 'discount allowed' or 'cash discount'.
- (f) Many candidates recognised that no entry is required in the accounts to record trade discount. Most candidates said it would appear on the sales invoice or in the sales journal. Many just said that it would not be recorded. Incorrect answers included discount allowed account or the cash book.
- (g) This question (i) clearly proved challenging to many candidates. Many offered the sales returns journal not recognising that is what they were given. Other responses included sales returns ledger. The second part (ii) again saw candidates offering the sales returns journal. Relatively few recognised that they would be entered in the customers' individual accounts.
- (h) On the whole this was well answered with the majority recognising the money measurement principle. A small number incorrectly named the principle but did not explain money measurement.
- (i) and (j) These two questions were very well answered.

Question 3

- (a) Many candidates found this question challenging. The main problem was identifying that despite being told the estimated electricity bill for the next three months as \$330 only two months needed to be accrued in the accounts. It was common to see \$330/\$110 brought down. Some treated this as a prepayment of either \$110 or \$330. Additionally some candidates did not show any transfer to the Income Statement. Some candidates used incorrect narratives such as 'direct debit' or 'cash' rather than 'bank'.
- (b) Most candidates did appreciate that this was based on their answer to (a) but others were more vague saying that it is just the balance brought down.
- (c) Again most candidates recognised that this was connected to (a) and answered appropriately.
- (d) This question was in fact answered better than (a) with many candidates achieving full marks. Some candidates did not get full credit as they used incorrect dates and referred to the bank entry as 'cheque'. There were a small number of complete reversals of the account.
- (e) Most candidates correctly identified this but some used their balance from (d) even though they were told in the question that the tenant owed \$1700.
- (f) A large number of candidates performed extremely well with this question. Some candidates found it challenging possibly due to unfamiliarity with the presentation of the question. Common errors were showing revenue as \$119 000, not showing the correct dates and calling the gross profit as 'profit'.
- (g) Although many candidates correctly made reference to how well current assets could cover liabilities or that it is the liquidity position of the business many just referred to 'the ratio of current assets to current liabilities' or stated the formula.

- (h) Many candidates achieved the two marks here. Some did not adhere to the two decimal places having calculated correctly or did not present the answer in the correct format.
- (i) Candidates offered a variety of acceptable differences for this question. Weaker candidates merely referred to differences in working capital or not enough information available.
- (j) This was not answered well. Candidates should recognise that any improvement to working capital must come from an alternative source not related to working capital.

Question 4

- (a) On the whole candidates make reasonable attempts at updating the cash book with a number achieving full marks. Weaker candidates were unable to distinguish which opening balance to include; either the given cash book balance or the bank statement balance, with some candidates entering both in the account. Other common mistakes were in the inclusion of the bank statement adjustments in the cash book.
- (b) The stronger candidates, having updated the cash book correctly in (a), had no problem with the bank reconciliation statement. Many candidates did not recognise that whether the starting point for the reconciliation was the cash book or the bank statement it was an overdrawn situation. Many candidates listed various adjustments and arrived at balances that did not concur with what they had calculated from (a) or given in the question.
- (c) Many candidates did not recognise the link to (a) this question had and gave the bank statement balance. Many candidates did give their updated balance but did not recognise either a current liability or current asset.
- (d) The vast majority of candidates could clearly explain what is meant by a dishonoured cheque and suggest reasons for this.
- (e) This question proved challenging for many. The question asked for the meaning of the imprest system and the vast majority just explained what the imprest system is, i.e. a fixed amount, a float. A number of candidates did identify that the fixed amount of the float would be restored on a regular basis after expenses had been paid out, but did not give any explanation as how much this would be or the use of vouchers or receipts for evidence. Many candidates explained that the same amount would be reimbursed each month.
- (f) Many candidates answered this question well. Other candidates restored the petty cash with \$173 which was the amount remaining in petty cash after the expenses of \$27.

Question 5

- (a) This question was generally not answered well with many candidates only awarded one mark for the need for a capital account. Most candidates just identified what is entered in each account and did not explain the need to have both a capital and current account. A small number did give appropriate explanations about the need to keep separate records of fixed capital and fluctuating balances either due to the partner or owed to the partnership.
- (b) There were mixed answers to this question, some answers were good but many responses were confused and repeated that it was a debit balance not appreciating what it means.
- (c) Many candidates were confident that interest is charged on drawings in order to reduce the level of drawings, however, some just pointed out that it is a term in the partnership agreement or that taking business assets means that interest needs to be charged.
- (d) This question was generally well answered. However, a large number of candidates were confused with the calculation of interest on capital for Sumit. Some candidates arrived at an answer of \$3600 based on closing capital of \$45 000 being held for a complete year. Other answers were based on capital of \$40 000 resulting in interest of \$3200. A few candidates lost marks for not identifying the partner receiving the salary and a small number deducted or added interest on drawings and interest on capital respectively.

- (e) This question was not answered well. The most common mistakes were in not treating the current account entries appropriately and reversing the current account opening balances. Many candidates did not treat the additional capital correctly and listed it with all the other entries in the current account. Many other candidates did not extract an overall balance for current accounts and a final balance for capital.

Question 6

- (a) There were many very good responses to the purposes of a trial balance; the main ones being to assist in producing financial statements and help in locating errors. Some candidates were not precise enough with their explanations and just referred to 'helps with accuracy' and did not expand further to 'accuracy of the double entry book keeping' or 'accuracy of the ledger accounts'.
- (b) This was very answered with a large number of candidates identifying all three errors correctly.
- (c) Attempts at clearing the suspense account were very variable. Most candidates identified correctly the opening balance was a credit entry. However, many candidates included items which did not affect the balancing of the trial balance. A number of candidates gave incorrect narratives with bank instead of rent and a total figure of \$380 for returns.
- (d) The majority recognised the connection with (c) and answered correctly with a suitable reason.
- (e) This question was reasonable attempted in a large number of cases with candidates identifying the amount and direction of errors. A number of candidates did not appreciate that amounts were required despite dollar signs at the heads of the columns and only provided ticks. Some candidates did not extract a final adjusted profit figure or reversed the increase/decrease to the profit.

ACCOUNTING

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Paper 22

Key messages

Candidates should read through a question very carefully before attempting an answer. This ensures that an important piece of information is not overlooked and that instructions are followed precisely. For example, to earn full marks on a question on journal entries, candidates were expected to follow an instruction to provide narratives.

Candidates are advised to provide supporting calculations where appropriate. This ensures that at least some credit may be earned even though the final answer is incorrect.

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

Candidates should avoid the use of abbreviations such as 'bbd' for 'balance' and 'Dis' for 'discount received' in ledger accounts. In financial statements abbreviations such as 'PDD' for 'provision for doubtful debts' and 'T Rec' for 'trade receivables' should also be avoided.

It is expected that candidates will be familiar with International Accounting Terminology and avoid the use of 'old' terminology such as 'stock' and 'net profit'.

General comments

It is essential that candidates have a thorough knowledge of double entry book-keeping and can apply this knowledge to the various scenarios on the question paper. In addition to the actual entries in the account attention must be paid to the words in the details column and the dates.

It is important that candidates present accounting statements in the correct format and the appropriate descriptions are used in both financial statements and in ledger accounts.

The written answers provided in some of the narrative questions were vague and lacked clarity. Accounting is a subject in which precision is extremely important.

Attention must be paid to handwriting to ensure that the words and figures are legible.

Comments on specific questions

Question 1

- (a) Candidates were required to state two advantages of preparing monthly sales ledger control accounts. The majority of candidates scored full marks. A few candidates incorrectly stated that control accounts prevent fraud and correct errors.
- (b) Two reasons were required on why a sales ledger control account could have a credit balance. While many candidates answered the question correctly, a number of answers were very imprecise. For example 'overpayment' was not regarded as adequate as there was no indicate that it was a trade receivable who had overpaid their account.

- (c) This question was very well attempted with many candidates earning full marks. The items for cash and trade discount and the contra entry caused problems for some candidates.
- (d) Candidates were required to name the accounting principles described in a number of situations. There were many wholly correct responses. Some candidates found the fourth item which described the principle of going concern and the fifth item which described the principle of money measurement challenging. Correct terminology was required. An answer of 'money' in lieu of 'money measurement' was not treated as adequate.
- (e) Using data provided, candidates were required to prepare the account of the supplier of fuel and a fuel expenses account. Candidates performance on this varied.

Wording in the details column was often incorrect, e.g. 'purchases' for 'fuel expenses' and 'discount allowed' for 'discount received'. Items were often omitted from the accounts, e.g. purchase of fuel on credit omitted from the fuel expenses account. The accounts often contained extraneous items such as inventory of fuel entered in the supplier's account. The account of the supplier should have been balanced and the balance brought down and the difference on the fuel expenses account should have been transferred to the income statement.

Question 2

- (a) An explanation of how depreciation is an application of the principle of prudence was required. Many answers were imprecise and limited to a general statement about the principle of prudence which did not relate to depreciation.
- (b) A journal entry was required to record the purchase of a motor vehicle on credit. There were many wholly correct answers. It is important to state the exact name of the account to be debited and the account to be credited. For example 'Motor vehicle B was bought' is not the name of a ledger account. A few candidates incorrectly debited the purchases account rather than the motor vehicles account.
- (c) Candidates were required to calculate two years' depreciation for motor vehicle A. A number of candidates overlooked the accumulated depreciation at 1 December 2015 and calculated the depreciation for 2016 based on the cost price.
- (d) The depreciation for the first two years of ownership of motor vehicle B had to be calculated. A significant number of candidates attempted to charge depreciation from the date of acquisition even though the data clearly stated that depreciation was calculated on assets owned at the end of the financial year.
- (e) A journal entry had to be prepared showing the transfer of the total depreciation on motor vehicles to the income statement. There were some correct responses. The income statement should have been debited and the provision for depreciation should have been credited with the total depreciation for the year (calculated in parts (c) and (d)). Many entries were reversed and a number included the depreciation for both years.
- (f) Candidates were required to calculate the total depreciation on motor vehicle A up to the date of disposal. Many candidates correctly listed the two amounts of depreciation calculated in part (c) but did not add the accumulated depreciation of \$14400 from the previous financial year.
- (g) A journal entry had to be prepared to record the transfer of the cost of the motor and the accumulated depreciation to the disposal account. Incorrect account names were sometimes provided such as 'asset' instead of 'motor vehicles'. A common error was to transfer both accounts to the income statement rather than the disposal account. A number of candidates incorrectly transferred the provision for depreciation to a depreciation account. The amount of the accumulated depreciation should have been the figure calculated in part (f).

Question 3

- (a) Using data provided, candidates were required to prepare an income statement for the club's café. There were many correct responses. However candidates are reminded about the important of putting items in a suitable order. For example, the closing inventory should be deducted from the purchases: café expenses should appear after the purchases and closing inventory. It is important to use the correct wording. For example, the final figure should have been described as 'Loss for the year': 'café suppliers' is not the correct description for 'purchases': 'assistant' is not the correct description for 'wages of assistant'. It is preferable to state the name of the asset being depreciated.
- (b) The income and expenditure of a sports club had to be prepared. Once again there were many good answers. Some candidates included a number of extraneous items such as non-current assets, loan, café receipts and café expenses. A number of candidates did not include the loss on the café (calculated in the income statement). Some candidates had problems with the adjustments to the subscriptions and rent and insurance.
- (c) Candidates were required to select one item in the list of receipts and payments which did not appear in the income and expenditure account and to provide a reason. Many correctly identified suitable items such as the loan or the non-current assets, but the reasons for sometimes rather imprecise.
- (d) Candidates were required to select one item in the income and expenditure account which did not appear in the list of receipts and payments and to provide a reason. Many correctly identified items such as depreciation of sports equipment, loss on café and surplus. Other candidates gave very general answers such as depreciation (without specifying the asset) and subscriptions (without specifying that this related to subscriptions accrued).
- (e) Many candidates did not appear to appreciate that the surplus earned by a club cannot be distributed to members of the club. They are not the owners of the club and so are not entitled to a return on the amount invested. Answers tended to focus on the lack of funds remaining in the club if the surplus was distributed.
- (f) Candidates were asked to comment on a suggestion of increasing subscription and holding fundraising events to raise funds to purchase premises. Only a few candidates appeared to appreciate that these actions would not result in the necessary funds being raised in the time available.
- (g) One way of raising finance required to purchase premises had to be stated. Many correctly suggested obtaining a loan (but some did not qualify this by stating long-term loan). Inappropriate suggestions included increasing prices in the café and issuing shares and debentures.

Question 4

- (a) Candidates were required to prepare a corrected statement of financial position using a statement of financial position which contained errors and additional information. Most candidates grouped the assets and liabilities in the correct sections. When the amounts for the non-current assets are displayed in columnar format the three columns should be headed. A common error was to charge a full year's depreciation on the motor vehicle. The provision for doubtful debts should be correctly labelled and deducted from the trade receivables. The loan was due for repayment within twelve months and so should have been included in the current liabilities. The amount of the inventory and the bank overdraft were often not adjusted. Despite guidance being given in the question, the profit for the year was often not corrected. Many inserted a missing figure to make the statement balance and others used the original profit. Candidates are reminded of the importance of showing calculations.
- (b) A capital account had to be prepared. Many candidates provided good answers.
- (c) Two reasons were required why the employees would be interested in the trader's financial statements. Many answers correctly focused on the possibility of wages increases and job security but others were rather vague such as 'to see the profit'.

- (d) Two additional reasons were required why the manager of the business would be interested in the financial statements. A number of candidates did not appreciate that additional reasons were specified and merely repeated their answer to part (c). Other candidates provided suitable answers.

Question 5

- (a) Candidates were required to complete a statement of changes in equity which had various missing figures. This was very well done.
- (b) Percentages of gross profit and profit for the year to revenue were provided for two years. Candidates were required to suggest two reasons for the change in the percentage of profit for the year to revenue. Many correctly suggested a decrease in expenses and an increase in other income or an increase in gross profit. Other candidates incorrectly suggested changes to items in the trading section of the income statement such as sales and purchases.
- (c) Most candidates correctly stated that the company had better control of expenses in 2016, but many were not able to provide an acceptable explanation. Very few recognised that the percentage of expenses to revenue had decreased.
- (d) A table had to be completed showing the effect on the percentage of profit for the year to revenue of four proposals. There were many good responses. The purchase of goods on a cash basis proved a little problematic.
- (e) Using information provided, candidates were required to comment on the effect on the liquidity of changes in the trade receivables collection period and the trade payable payment period. Many candidates merely stated that both the periods had increased but made no attempt to relate this to the periods of credit allowed and the subsequent consequences.
- (f) There were many suitable suggestions on how the company could reduce the collection period. A number of candidates did not appreciate that these sales had already been made and incorrectly suggested reducing credit sales.
- (g) Candidates were required to suggest two ways in which bad debts could be reduced. Most candidates answered the question well.
- (h) One disadvantage to the trade payables of the change in the payment period had to be stated. Very few candidates provided a suitable response as they focused on the effect on ABC Limited rather than the effect on the trade payables.
- (i) One advantage to the trade payables of the change in the payment period had to be stated. Once again, candidates' answers incorrectly concentrated on the effect on ABC Limited rather than the effect on the trade payables.
- (j) Candidates were required to state what is measured by the return on capital employed. This was not well answered. Many candidates simply provided a formula. Others incorrectly commented on the return on owner's capital.
- (k) A table had to be completed to indicate the effect of three proposals on the return on capital employed. Most candidates correctly indicated the effect of the first proposal, but the other two items proved more difficult.