

ACCOUNTING

Paper 0452/12 Paper 12

Key messages

- It is always better for candidates to 'have a guess' at multiple-choice questions when they are not sure of the answer rather than not responding.
- When preparing ledger accounts labels such as BBD and BD are unacceptable. Ideally balance b/d or c/d should be written.
- Labelling items is extremely important when preparing income statements or statements of financial position. Again, abbreviations such as COGS for cost of goods sold or GP and NP for gross profit and net profit are not acceptable.
- Candidates should always indicate where they may have re-written an answer in a different section of the answer booklet or on additional pages.

General comments

The paper was well attempted by a number of candidates. However, the main causes for candidates not being awarded marks relates to the key messages above and will be commented on below. The questions which were particularly well attempted were **Question 3(b)** where a large number of candidates were awarded full marks, **4(b)** and **5(b)**.

Comments on specific questions

Question 1

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

Specific comments regarding specific questions are discussed below.

- (a) Some candidates did not seem to understand that Faraz's business was in buying and selling used motor vehicles and that the vehicle would form part of the inventory.
- (b) In questions of this nature candidates should be encouraged work the questions on the question paper in order to establish the new capital
 - (i) Similarly to (b) Candidates would benefit from preparing a simple extract from a statement of financial affairs in order to understand which of the changes would affect working capital.

Question 2

- (a) On the whole this question was well attempted. A large number of candidates were able to state an advantage with the most common answer being the division of work. A small number stated what division of the ledger meant rather than providing an advantage.
- (b) Most candidates could name two nominal ledger accounts.
- (c) Many candidates achieved full marks on this question. Some candidates marked the entry for cash refund from credit suppliers in the debit or no entry column. In these situations it is a good idea if

candidates go back to basics and consider the initial entry for the cash (debit) and then, following the principle of duality, there must be a credit to the purchase ledger.

- (d) Many candidates did very well with the journal entry but lost the mark for an inappropriate narrative. A small number referred to a bad debt recovered.
- (e) Generally well answered. But some responses did not make it clear that this was money received for a debt previously written off. Some candidates stated that it was clearing a debt in the following year.
- (f) The majority of responses identified prudence and accruals and very occasionally consistency. Weaker responses offered a variety from the remaining principles.
- (g) This was generally well answered with responses including two very specific reasons for the suppliers to be interested in Gurdeep's financial statements. Some responses included generic comments regarding performance without developing this into the likelihood of future business or the ability to pay in the future.
- (h) This was well answered with the most common responses being the bank and the government.

Question 3

- (a) The responses that acknowledged that the question was about the advantages of the imprest system of maintaining petty cash answered well. The main responses to the question referred to controlling or limiting petty cash expenditure and that the system aided the reduction of fraud. However, some responses focussed on the advantages of keeping a petty cash book rather than on an imprest system, and referred to saving time for the main cashier or the training of junior cashiers.
- (b) It was very pleasing to see that most responses provided correct narratives, detailed analysis and dates. The most common mistake was in the treatment of the repayment by the cleaner. It was either missed out or treated as a negative payment on the credit side of the petty cash book. Some responses lost the mark for the restoration of the petty cash on 1 January with the narrative 'cash' disregarding the information at the start of the question indicating that the petty cash is restored from the bank account. A small number of responses seemed unsure of how to balance the account at the end of the month and bring down the balance to 1 February. Many, having correctly made all the debit entries totalled the account to \$250 and there were a few examples of the balance being brought down on the credit side.
- (c) Some responses achieved full marks. However, regarding the credit entry, in some cases where the narrative was correctly entered the mark was lost for the date, given as 6 January. Candidates should be made aware that the entries to the ledger accounts would be made at the end of the month.
- (d) There were some very general statements regarding double entry and a small number of responses did not recognise the difference between the ledger entries and the nominal account entries. A number of candidates did identify a debit entry to supplier accounts but did not specify the individual accounts or the amounts.
- (e) (i) The responses that included a solid petty cash book in (b) tended to meet the requirements of this question and gave the correct answer. A small number of responses calculated their restoration amount from \$250 rather than \$260. Weaker responses gave the amount as \$250 or the amount of the expenditure \$218.

(ii) This question was generally well attempted with two correct entries. The majority of responses correctly entered the debit but there were a variety of suggestions for the credit, cash, petty cash or imprest.

Question 4

- (a) Candidates performed relatively well with this question. It is interesting to note that a large number of candidates opted to use a ledger account to calculate the subscriptions. It is good to see that

most candidates appreciated the treatment of subscriptions prepaid and accrued. Marks were generally lost due to omission of an opening or closing balance.

- (b) It was good to see that the majority of candidates seemed well prepared in the preparation of Income and Expenditure accounts recognising that the calculation of a deficit or surplus was the objective. Most candidates, correctly, used their calculation of subscriptions from (a) with only a small number attempting to recalculate the figure. In the expenditure section of the account adjustments for accruals and prepayments (rent and insurance and general expenses) were handled correctly and the depreciation, in the main, was also calculated correctly. Weaker responses included purchases of equipment, the repayment of the loan and opening and closing bank balances in the expenditure. A very small number of responses added the loan interest to the loan and entered one figure in the expenses. The main omission was the net cost of competitions or – in a very small number of cases – it was shown as a deduction of income.
- (c) (i) Many candidates offered two appropriate items included in the receipts and payments account and not in the income and expenditure. The most common answers were the 'purchase of equipment' and the 'opening or closing bank balances'.
- (ii) Some responses approached the question generically and offered 'adjustments to prepayments and accruals' rather than focussing on the only adjustment included in the Income and Expenditure account prepared in (b), which were the accrued general expenses. A large number of candidates correctly identified depreciation of equipment.
- (d) This question was generally well answered.
- (e) Many candidates were able to give the correct answer or, using their own calculation for the surplus or deficit, were able to calculate the accumulated fund at 28 February. Some responses included an attempt to calculate the accumulated fund from closing assets and liabilities, and a small number stated the opening accumulated fund.

Question 5

- (a) (i) Many candidates competently gave a meaning for Prime cost with a large number giving the precise components of direct material, labour and expenses. Other responses were less precise simply stating direct costs rather than the costs specifically associated with the production of goods.
- (ii) On the whole, there was little reference to the fact that it was the total cost of production for the year. Many responses stated that it was the prime cost and factory overheads.
- (iii) Generally this question was very well addressed with most responses clearly defining the concept of Work in Progress.
- (b) Many candidates tackled this very well with many gaining full marks indicating that candidates were very well prepared in this part of the syllabus. Common areas where marks were lost were in not including carriage with the materials, or, in fact deducting the carriage. A small number of responses included indirect wages in the prime cost. It was, however, pleasing to see that most candidates understood the calculations for the inventories on 31 December.

In regard to the factory overheads section, the adjustments for the rent, rates and insurance were generally treated correctly, as was the calculation for loss in value for loose tools. However, this mark in many cases was lost due to an incorrect narrative. Many candidates calculated the depreciation on machinery correctly but a small number arrived at a figure of \$19 000 using the straight line method. Weaker responses included the cost of machinery. Once again, calculation of the closing work in progress was generally well answered, although a small number reversed the calculation.

The accounts were generally well presented.

- (c) This question, too, was generally well handled with many gaining full marks. Only a small number rounded their answer to 13.12. A small number of candidates reversed the numerator and denominator and some, having added the inventories correctly, failed to divide by 2.

(d) (i)&(ii)

Many candidates identified correctly the principle of inventory valuation and method used to value inventory. Weaker responses included a variety of suggestions, such as selling price or cost of production.

(e) Some responses demonstrated issues in recognising how the profit for the year 31 December 2019 would be affected. It is a good idea sometimes with these types of questions to encourage candidates to prepare a very simple income statement, adjusting figures accordingly, in order to help them provide correct answers.

(f) Many candidates provided two very appropriate ways to increase gross profit.

Question 6

(a) (i) There were many good attempts at explaining the terms pertaining to share capital. Most were precise in that it was the amount of capital requested from shareholders although some did not make this clear. A few responses included the thought that it was the company paying the shareholders.

(ii) The majority of candidates were able to explain that it was the amount actually paid for the shares.

(iii) Many candidates confidently explained limited liability in terms of the investment made in the company. Other responses were more generic and explained that shareholders could not lose personal assets.

(b) This question was generally very well attempted. Many candidates were clearly well prepared in the individual features of long-term finance.

(c) Many candidates clearly understood the similarities between debentures and preference shares, the common answers being that they both receive a fixed rate of return and that neither could vote at an AGM.

(d) Candidates made a good attempt here.

(e) There were some good answers for this question usually regarding problems repaying quickly or a higher interest rate for a bank overdraft. Some responses focussed on the reasons why a bank overdraft should not be taken out rather than why it was not preferable for long term finance.

(f) This question was generally well answered although some responses did not include a tick in the correct box for the row referring to total equity at 1 January 2019.

ACCOUNTING

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Paper 22

Key messages

Candidates are advised to read through each question carefully before attempting an answer. This ensures that important information is not overlooked and that instructions are followed precisely. Marks cannot be awarded for a factually correct statement which is not the answer to the question being asked.

Where appropriate, candidates are advised to provide supporting calculations. This ensures that some of the available marks may be earned even though the final answer is incorrect.

The spaces provided on the question paper for candidates' answers are 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 (e.g. a note 'Please refer to Page...' or 'Continued on Page...')

Candidates should avoid the use of inappropriate abbreviations such as 'b/d' for 'Balance' in ledger accounts. Abbreviations such as PDD, I on C and so on should be avoided in financial statements.

It is important that candidates present their figures clearly and that their written work is legible.

General comments

All the questions on the paper were compulsory and covered a wide range of syllabus topics. Most candidates attempted to answer all the questions.

It is important that candidates present financial statements in the correct format. Many candidates did not seem familiar with a statement of financial position for a partnership business.

Suitable descriptions must be used in both ledger accounts and financial statements.

Candidates are advised to think carefully when attempting theory questions. Answers to these questions should make clear definite statements that directly answer the question and not consist of vague generalisations.

All the day-to-day records of a business are based on double entry bookkeeping. Candidates must have a thorough knowledge of double entry and must be able to apply this to the various scenarios. In addition to using correct descriptions all ledger entries must be correctly dated.

Comments on specific questions

Question 1

- (a) Candidates were required to complete a series of ledger accounts using a trader's cash book, sales journal and sales returns journal. Those candidates who seemed to have a thorough knowledge of double entry earned high marks. A significant number of candidates posted individual items from the cash book and journals to the sales, sales returns and discount allowed accounts instead of posting the totals for the month. It is important to show the correct wording in the details column. For example 'dishonoured cheque' is not the name of the account in which the double entry for the transaction would be found. Where an item is shown in the cash column in the cash book the entry in the appropriate ledger accounts should show 'Cash' and not 'Bank'.

- (b) A provision for doubtful debts accounts was provided and candidates were required to explain the opening and closing entries, and also to state where the double entry would be found. Many candidates simply stated that these items were the balances. That was not regarded as adequate as these statements did not actually explain the meaning of these entries. Some candidates incorrectly referred to the opening balance as being the provision for doubtful debts for the last financial year and the closing balance as the provision for the current year.

Some candidates correctly named the provision for doubtful debts as the accounts where the double entry would be made. Others incorrectly suggested the income statement, trade receivables or statement of financial position.

- (c) (i) Most candidates recognised that the entry in the provision account showing a transfer to income statement represented the increase in the provision. A few candidates stated that it was the amount transferred to the income statement but did not actually explain the entry.
- (ii) The majority of candidates correctly stated that the profit for the year would decrease because of the transfer from the provision for doubtful debts account.

Question 2

- (a) Using information provided, candidates were required to prepare a rent payable account and a rent receivable account. The candidates who seemed well prepared were able to obtain satisfactory marks. Other candidates seemed to find this question challenging and often produced accounts which were completely reversed, or accounts which contained transactions relating to both rent payable and rent receivable. The opening balances were often omitted or were incorrect and sometimes the closing balances were not brought down. All the entries should have been dated and shown with correct descriptions.
- (b) A list of transactions between two traders was provided and candidates were required to name business documents which would be issued on certain dates and to name the sender of those documents. The majority of candidates earned full marks. A few incorrectly believed that on the return of goods the buyer would issue a credit note and that the seller would then issue a debit note.
- (c) The majority of candidates correctly identified the statement of account as the document the seller would issue at the end of the month. Incorrect responses included 'statement of entries' and 'receipt'. Most understood the purpose of the statement of account. There were some incomplete responses which did not qualify the statement about it summarising the transactions by relating the transactions to the month of February or not naming who was being reminded of the amount outstanding.
- (d) Using the data provided candidates were required to prepare the ledger account of the credit supplier in the book of the customer. Some candidates earned satisfactory marks. A number of candidates produced accounts which were either completely reversed or accounts in which transactions were described incorrectly. Some candidates did not understand that trade discount is never recorded in the ledger for either the purchases or for the returns. Carriage was often omitted or incorrectly included within the figure for purchases.
- (e) A journal entry had to be prepared to record the transfer of an amount from a sales ledger account to a purchases ledger account. Many candidates recognised this as a contra entry or an inter-ledger transfer but were not able to correctly identify the accounts to be debited and credited. In such an entry it is important to include the correct account name (the name of the trader) and the ledger in which that account would be found.

Question 3

- (a) Candidates were required to prepare a draft statement of financial position of a partnership business. The candidates who seemed well-prepared earned good marks, but some seemed unfamiliar with this topic. A few did not show the sub-totals for the various sections of the statement. The deduction of the provision for doubtful debts from the trade receivables should be clearly shown (words and figure). Some candidates incorrectly included the bank balance and the provision for doubtful debts in the current liabilities.

In the statement of financial position of a partnership it is important to keep the accounts of each partner completely separate. The balance of each partner's capital account should be shown and then the current account of each partner should be shown. The question required full details of the current accounts to be included in the statement. It is preferable to present the details of the partners' accounts in columnar format showing clearly the final balance on each partner's capital account and current account and then totals of the capital accounts and the current accounts. Some candidates treated the items in the current accounts incorrectly, adding when they should have deducted and vice versa. A few candidates did not follow the instruction about including current account details and calculated the current account balances elsewhere.

- (b) This question required candidates to state the meaning of capital expenditure and receipts and revenue expenditure and receipts and to provide an example of each. A significant number of candidates incorrectly included repairing or expenses in their definition of capital expenditure. Many candidates did not seem to understand the concept that a capital receipt consists of any receipt which does not form part of the day-to-day trading activities. A similar error was made when explaining a revenue receipt when candidates restricted their answer to money received from selling goods and overlooked that revenue receipts include any items of day-to-day income as well as from trading activities. A few candidates incorrectly referred to a capital and revenue receipt as a document received to acknowledge money paid.
- (c) Using data provided candidates were required to apply their knowledge of capital and revenue expenditure and to calculate the total capital expenditure on premises and the corrected profit for the year. The proportion of the legal fees and the decoration which applied to the new premises should have been added to the actual cost of the premises. The remaining amounts of legal fees and the decoration should have been deducted from the draft profit for the year. Insurance of the premises for the six months of the current year should also have been deducted from the profit. A few candidates included interest on capital and interest on drawings in the profit calculation.

Question 4

- (a) A trial balance containing errors and a list of additional errors were provided and candidates were required to prepare a corrected trial balance. Many candidates earned high marks. Common errors were to not include the adjustments required on the motor vehicle, bank overdraft and trade receivables. A few candidates did not include accounts for bank charges, bad debts and/or motor expenses. The majority of candidates entered the difference on their trial balance in a suspense account. A few candidates showed two different totals or two matching totals which were arithmetically incorrect.
- (b) A table had to be completed to show the entries required to correct three of the errors. In error 5 many candidates incorrectly debited discount allowed account and credited suspense account. The entries for error 6 were sometimes reversed or an entry was made in the purchases journal.
- In error 7 the suspense account was often debited with \$300 rather than \$600 and consequently one credit entry was made for the same amount.
- (c) Candidates were required to complete a table to indicate the effect of the errors on profit for the year and the effect on the assets. Candidates seemed to find errors 5, 6 and 7 slightly more challenging than error 4.

Question 5

- (a) Using data provided, candidates were asked to comment on the change in the rate of inventory turnover. Most candidates recognised that the rate had fallen and were able to suggest an acceptable reason for this.
- (b) Two effects of the change in the trade payables payment period were required. Most candidates were able to suggest two effects and earned full marks. A number of answers concentrated on reasons for the change in the payment period rather than the effects of the change.
- (c) Candidates were required to comment on the change in the trade receivables collection period. Most candidates recognised that the period had increased and were able to make acceptable comments. A few candidates stated that the change would affect the liquidity of the company but did not explain whether this effect was advantageous or otherwise.

- (d) The current ratio and the quick (acid test) ratio had to be calculated. There were many correct responses. The quick ratio compares the liquid assets with the current liabilities. The liquid assets are the current assets less the inventory. A few candidates correctly added the trade receivables, bank and cash and then incorrectly deducted the inventory.
- (e) One reason for the change in the quick (acid test) ratio was required. Many candidates earned the available mark. Others suggested a decrease in a current asset without specifying which current asset: a decrease in inventory would actually increase the quick ratio.
- (f) A table had to be completed to indicate the effect on the quick (acid test) ratio of four proposals. There was a wide range of responses.
- (g) Candidates were required to explain the effect of two proposals on the current ratio. Some candidates incorrectly tried to describe the effects on the quick (acid test) ratio.

Arranging for a short-term loan to be changed to a long-term loan increases the current ratio as the current liabilities decrease and there is no change to the current assets. Many candidates understood the effect of the proposal on the ratio and the current liabilities but did not explain that the current assets would remain the same.

Paying credit suppliers more quickly in order to obtain a cash discount would also increase the current ratio. This means that the current liabilities decrease but the current assets decrease by a smaller amount. Once again, many candidates did not mention the effect on the current assets.