

ACCOUNTING

Paper 0452/11 Paper 11

Key messages

Candidates need a good understanding of the principles of double entry. This includes using clear narratives which in the case of ledger accounts needs to be the name of the other account involved.

If a candidate does not use the allocated space they should clearly state which page they have attempted the answer on.

It is better to cross through and re-write incorrect material rather than attempt to overwrite on the top of the previous answer.

Candidates should avoid the use of inappropriate abbreviations such as 'bbd' for 'balance' in ledger accounts or 'PDD' for 'Provision for Doubtful debts' in financial statements.

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of 'old' terminology such as 'stock' and 'net profit' etc.

General comments

All the questions on the paper were compulsory and covered various topics on the syllabus.

Overall, the paper was well attempted by a number of candidates.

Comments on specific questions

Question 1

Generally (c), (e), (f), (g), (h), and (j) were well answered. Parts (a), (b), (d) and (i) warrant more detailed comments.

- (a) There was some confusion here over the purpose of accounting. The other three options all relate to book-keeping activities whereas the calculation of profit is a purpose of accounting.
- (b) The trade discount needs subtracting first so 30% from \$1000 is \$700. This will be the amount listed as the sale. What the customer will actually pay is \$630 after the cash discount but this is not the question.
- (d) If Ann receives an amount for a service before she has actually provided it, option 2, then this money does not actually belong to her until the service is provided. She effectively owes the customer and so it is categorised as a current liability with any 'other payables' such as option 3 the value of a service which has been received but for which no payment has yet been made.
- (i) There are several approaches to this question. The most straightforward is to subtract the inventory increase of \$400 from the purchases of \$3400 to leave \$3000. Then divide this by 0.7 to represent the margin of 30% which is \$4286 to the nearest dollar.

Question 2

- (a) Answers varied with some candidates simply referring to capital or producing the formula which was not required. Some candidates referenced separate identity or the owner's account without making the link that it is either money owed to the owner or the funds contributed by the owner.
- (b) There were a good range of marks on this question. There were some candidates who used the phrase double entry rather than duality.
- (c) The most common incorrect response was 'purchases ledger'.
- (d) This was not answered well with many candidates answering partnerships or clubs and societies.
- (e) Generally well answered although some candidates answered with both assets and liabilities or wrote current assets rather than simply assets.
- (f) There were many good answers. It was necessary for candidates to clarify who would issue each document. Incorrect answers gave reasons connected with different documents or were incorrect because direction of travel for document was wrong. Sometimes the definition of the statement of account could have been for an invoice and was not clear that it is a summary of transactions and not simply a demand for payment.
- (g) This was answered reasonably well.

Question 3

- (a) This was answered reasonably well. However, some responses were vague or described the bank reconciliation statement. Other candidates could have been describing the cash book and did not emphasise the bank view.
- (b) This was well answered by many candidates. Common errors included poor narrative for Insurance \$320 (just stating error), narratives stating credit transfer or standing order but not the account affected etc.
- (c) Stronger responses usually gained full marks. Some candidates used poor narratives for the cash balance and bank statement balance, or did not use the updated balance from the cash book or showed a balance as a negative when it was actually positive. Some candidates attempted to use a ledger account layout.
- (d) This was not answered well with many candidates simply describing loans and overdrafts and not noting differences. Some repeated themselves by stating that an overdraft is short term and a loan usually long term and then that overdrafts are current liability and loans are usually non-current liabilities. Many stated that overdrafts had no interest, there may be a daily charge instead but overdrafts are not completely fee free.
- (e) This question was generally well answered.

Question 4

- (a) A common error was to use accumulated depreciation to calculate the percentage rather than the change between the two years. Candidates often calculated two percentages and then were unsure of which to use in **4(c)**.
- (b) Very varied answers. Common errors included listing too many day books, referring to ledger accounts and to ledgers instead of day books.
- (c) In this question it was necessary to use the depreciation rate calculated in **4(a)** to calculate depreciation using the straight-line method. Weaker candidates did not realise this or used the depreciation rate incorrectly. Errors included starting with incorrect figures for fixtures and fittings at cost 2015 and 2016, not using their own calculated depreciation rate, attempting to use the reducing balance method and not deducting \$4000 for fixtures and fittings sold for the final figure.

- (d) Mixed responses here with many using depreciation instead of income statement and the word provision was often missing.
- (e) Some candidates used the non-current asset account, rather than the disposal account.
- (f) This was well answered. Some candidates referred to the reducing method rather than the reducing balance method, there was some confusion over the net book value and often for the revaluation method there was no mention of the need to adjust for purchases and disposals in relation to the calculation.
- (g) Mostly correct but some candidates thought the number plates were revenue expenditure.
- (h) This was answered poorly as many candidates stated sale of non-current assets rather than the proceeds from the sale of non-current assets. The other common error was to state a revenue receipt instead of a capital receipt.

Question 5

- (a) Very few candidates performed well on this question. There were frequent reversal of entries and inclusion of irrelevant entries. Some candidates did calculate \$100 for purchases but then reversed the entry.
- (b)(i) Stronger responses frequently gained full marks. Some candidates confused the table with far too many entries, there was lack of recognition of the effect of errors on profit, incorrect totals for each error and miscalculations of corrected gross profit using own figures.
- (ii) It was necessary here to use the corrected gross profit from **5(b)(i)** as the starting point. Some candidates wasted time by attempting a new calculation to ascertain gross profit rather than using what they had already calculated. Some missed out depreciation or included the accumulated depreciation which not what they had calculated earlier and resulted in the loss of own figure for the profit for the year.
- (c) There was a wide variation of marks with stronger responses gaining 8–10 marks. Some candidates incorrectly attempted a trial balance or an income statement, depreciation was recorded as \$3000 rather than the \$4500 it should be and bank figure of \$600 credit was included as a current asset rather than a current liability. Inventory and trade receivables were not always adjusted. There were various issues with the capital section with many candidates not showing the additional capital of \$2000 as a separate entry, not adjusting the drawings and then not using the profit for the year from **5(b)(ii)**.

Question 6

- (a) This was answered reasonably well. Some candidates incorrectly referenced companies or shareholders. There had to be the essence of shared ownership or view to profit rather than just working together.
- (b) Many candidates answered this question correctly. The most common error was the incorrect calculation of interest on capital for Amina due to her change in capital during the year. There were also several aliens included such as interest on drawings, current or capital account balances or drawings. Some candidates started with an incorrect profit or did not share the profit correctly according to the profit share.
- (c) There was a wide range of marks here with weaker responses gaining very few marks. In terms of the capital account there were often alien items such as drawings and interest on capital and the narrative for the \$10 000 cash was sometimes incorrectly labelled as bank. With the current account there were often entries missing, capital account balances were present and the balances b/d were incorrectly labelled. Items were sometimes reversed in both ledger accounts.
- (d) Some candidates clearly demonstrated the impact on the financial statements by making the link to the increase in non-current liabilities and the impact on the increased expenses for the loan interest causing profit for the year to fall. There were also some vague answers.

- (e) There were some very vague answers to this question which sometimes repeated the question, or made an attempt at a point but then little or no development. Many candidates cited the unfairness of the actions of Samara but they were unable to pinpoint the impact on both the partnership and Amina.

ACCOUNTING

Paper 0452/12 Paper 12

Key messages

As always, 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 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.

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.

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

- (d) A question relating to value of inventory. Many candidates did not appear to understand the principle of valuing inventory at the lower of 'cost' or 'net realisable value'. The adjusted valuation for the 3 damaged radios seemed to prove challenging. In this situation the 3 damaged radios need to be valued at 'net realisable' value but with the cost of the repair deducted.
- (g) In questions concerning accounts where some information is given and the requirement is to find a missing figure candidates should be encouraged to prepare a 'T' account to enable the extraction of the missing figure.
- (h) More positive responses would have been obtained if candidates had worked through this question logically by preparing the manufacturing account using opening and closing inventories with a \$4000 difference to extract cost of production and then transferring this cost to the trading account. This figure should then be used with opening and closing inventories with a difference of \$9000 to extract the cost of sales.

Question 2

- (a) Generally this question was very well attempted with only a small number of candidates attempting to explain double entry rather than the principle.
- (b) This question was very well attempted by most candidates.

- (c) This question was also very well answered. Where there were incorrect answers it was not clear whether the candidate understood the adjustment for prepayments or did not read the question correctly.
- (d) Most candidates were able to state a purpose of accounting with the most common answer offered 'to prepare financial statements' or 'to calculate profit'. However some gave a definition of book-keeping for example 'to record business transactions'.
- (e) On the whole this question was well attempted. A small number offered the financial statements prepared by the organisations and some gave the type of business, e.g. service or trading for the first and last item.
- (f) This was generally well attempted with some candidates offering the cash book for the financial statement.
- (g) This was addressed very well by many candidates. Some candidates only gave half the answer e.g. the income statement calculates profit the statement of financial statement 'doesn't'. Other candidates made reference to capital and revenue expenditure or the statement of financial position deals with the financial position.
- (h) Most candidates understood their answers should be related to a club or society. Where this was not understood common answers included the owner, the government or a shareholder.
- (i) The most common answers were time factor or non-financial aspects. Many, however, referred to understandability, relevance and the incidence of errors and omissions.

Question 3

- (a) It was encouraging that many candidates gave very valid reasons as to why a trader keeps books of prime entry with the most common answer 'to reduce the number of entries in the ledger'. However, a number of candidates described what a book of prime entry is, e.g. a list of transactions and not the purpose of maintaining a book of prime entry. Candidates must read the questions carefully as the question asked 'why' a trader maintains books of account not 'what' are books of account.
- (b) On the whole candidates answered the question well.
- (c) Some candidates did not understand the term source document and referred to purchases journal or purchases returns journal. The document for May 4 was often considered to be a debit note and the issuer referred to as either the supplier or customer. Candidates should be encouraged to use the paper to make notes of what is actually happening in the question.
- (d) Most candidates brought down the correct balances on May 1 but then followed this by entering all the invoices or credit notes individually having been given the totals in the journals in the question. There was also a lead into this question in (a) where one reason for maintaining books of prime entry is 'to reduce the number of entries in the ledger'. However, many candidates correctly transferred the total to the income statement. A small number of candidates showed a balance carried down instead of the transfer despite this being asked specifically.
- (e) This question was reasonably well attempted with a number of candidates awarded full marks. Common errors included omitting the purchase on May 19 so the brought down balance was \$295. It was pleasing to see that a large number of candidates calculated the bank payment and discount received correctly.
- (f) Many candidates, in this question, referred to debit and credit transactions and the need to balance the account. Those candidates that did refer correctly to ledger balances then did not refer to when the trial balance is extracted from the books of account.
- (g) Candidates were confident in naming errors that do not affect the balancing of the trial balance with the most common being omission and commission. Explanations of the errors were mixed and in many cases it was not clear whether it was wrong account due to error of principle or commission.

- (h) On the whole this question was not well attempted. Many candidates referred to the advantages of control accounts rather what they are used for and how they help in locating errors.

Question 4

- (a) This question seemed to prove to be the most challenging of the paper. However, there were many candidates that did achieve full marks. Many chose to start the question from 2014 as a whole transfer of \$2163 to the income statement in order to bring down the balance on 1 January 2015. Many candidates achieved the transfer to income statement for 2015 but did not adjust the calculation for 2016 by the bad debt of \$1400 so a common answer for the balance brought down at 1 January 2017 was \$1666. Weaker responses included the trade receivables and the bad debt in the account. It was disappointing that a small number of candidates misnamed the transfer to income statement as 'provision'.
- (b) Most candidates understood the year on which they had to comment. Many chose to say that because the rate of provision decreased then profit increased rather than looking at the actual figure. However in many cases it was not possible to comment as (a) had not been completed or were unable to interpret what they had done in (a).
- (c) This was very well attempted by the majority of candidates. There were some reversals and a few trade receivables instead of Eddie.
- (d) Most candidates answered this question well. Common mistakes were general ledger, cash book, sales ledger and sales journal.
- (e) Many scored well here using their own figures from (a). However, many candidates, again, struggled to interpret what they had produced in (a) and included the balance brought down on 1 January 2017 as the transfer to the income statement. A small number of candidates attempted to produce an extract of the statement of financial position rather than the income statement.
- (f) This was very well answered.

Question 5

- (a) This question was answered very well in the majority of cases. Common errors were in omitting receipts from the share issue and hence an answer of \$438 000 overdrawn and other candidates omitted the share receipts and the capital purchases resulting in an answer of \$17 000.
- (b) Candidates were clearly well prepared in the preparation of accounts and although only a small number were awarded full marks. Some candidates omitted the adjustments for trade receivables and payables. The calculations for the provision for depreciation of the three non-current assets were very well addressed by many candidates.
- (c) Similarly the preparation of the statement of financial position was very well answered. Some candidates omitted the bank balance calculated from (a). Presentation of the non-current assets was good. Weaker candidates omitted the prepayment in the current assets and the equity section of the statement.
- (d) Only a minority of candidates could name the statement of changes in equity with many referring to profit and loss appropriation account.
- (e) Candidates must read the question carefully as many gave how each was calculated and what each measure represented rather than why each was higher or lower than the industry average. There was often reference to lower sales activity or higher purchases rather than being specific about lower selling prices or higher purchase prices.

Question 6

- (a) This was very well answered with only a small number of candidates misreading the question and rather than how working capital is calculated gave how working capital ratio is calculated.
- (b) This was also very well answered. Weaker candidates included the non-current assets in the numerator which was disappointing.

- (c) Candidates were very confident in this question with no problem naming a suitable liquidity ratio.
- (d) This question proved challenging for a large number of candidates with many marks not awarded due to either no development of their suggestions or repetition of their answers. In the main candidates were only able to suggest two benefits of maintaining sufficient working capital. Candidates should be encouraged to look at the figures they are dealing with, i.e. the figures for current assets and liabilities given in the question and their calculation from **(b)** to support their reasons.
- (e) Only few candidates were awarded full marks for this question. In questions where changes concerning the statement of financial position are involved candidates should be encouraged to write out a basic statement of financial position, apply the changes asked in the question which should result in candidates being able to give a more informed answer.
- (f) This question was generally well answered.
- (g) There were some good answers to this question, the most common being to 'know the return on \$100 of capital invested'. Other candidates were too vague and offered 'to know the profitability'. Candidates, again, must be encouraged to read the question more than once to understand what is being asked. The question was 'why' would Tyler calculate his return on capital employed not 'what' is calculated.

ACCOUNTING

Paper 0452/13 Paper 13

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- (b) The trade discount needs subtracting first so 30% from \$1000 is \$700. This will be the amount listed as the sale. What the customer will actually pay is \$630 after the cash discount but this is not the question.
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Question 2

- (a) Answers varied with some candidates simply referring to capital or producing the formula which was not required. Some candidates referenced separate identity or the owner's account without making the link that it is either money owed to the owner or the funds contributed by the owner.
- (b) There were a good range of marks on this question. There were some candidates who used the phrase double entry rather than duality.
- (c) The most common incorrect response was 'purchases ledger'.
- (d) This was not answered well with many candidates answering partnerships or clubs and societies.
- (e) Generally well answered although some candidates answered with both assets and liabilities or wrote current assets rather than simply assets.
- (f) There were many good answers. It was necessary for candidates to clarify who would issue each document. Incorrect answers gave reasons connected with different documents or were incorrect because direction of travel for document was wrong. Sometimes the definition of the statement of account could have been for an invoice and was not clear that it is a summary of transactions and not simply a demand for payment.
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Question 3

- (a) This was answered reasonably well. However, some responses were vague or described the bank reconciliation statement. Other candidates could have been describing the cash book and did not emphasise the bank view.
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Question 4

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- (d) Mixed responses here with many using depreciation instead of income statement and the word provision was often missing.
- (e) Some candidates used the non-current asset account, rather than the disposal account.
- (f) This was well answered. Some candidates referred to the reducing method rather than the reducing balance method, there was some confusion over the net book value and often for the revaluation method there was no mention of the need to adjust for purchases and disposals in relation to the calculation.
- (g) Mostly correct but some candidates thought the number plates were revenue expenditure.
- (h) This was answered poorly as many candidates stated sale of non-current assets rather than the proceeds from the sale of non-current assets. The other common error was to state a revenue receipt instead of a capital receipt.

Question 5

- (a) Very few candidates performed well on this question. There were frequent reversal of entries and inclusion of irrelevant entries. Some candidates did calculate \$100 for purchases but then reversed the entry.
- (b)(i) Stronger responses frequently gained full marks. Some candidates confused the table with far too many entries, there was lack of recognition of the effect of errors on profit, incorrect totals for each error and miscalculations of corrected gross profit using own figures.
- (ii) It was necessary here to use the corrected gross profit from **5(b)(i)** as the starting point. Some candidates wasted time by attempting a new calculation to ascertain gross profit rather than using what they had already calculated. Some missed out depreciation or included the accumulated depreciation which not what they had calculated earlier and resulted in the loss of own figure for the profit for the year.
- (c) There was a wide variation of marks with stronger responses gaining 8–10 marks. Some candidates incorrectly attempted a trial balance or an income statement, depreciation was recorded as \$3000 rather than the \$4500 it should be and bank figure of \$600 credit was included as a current asset rather than a current liability. Inventory and trade receivables were not always adjusted. There were various issues with the capital section with many candidates not showing the additional capital of \$2000 as a separate entry, not adjusting the drawings and then not using the profit for the year from **5(b)(ii)**.

Question 6

- (a) This was answered reasonably well. Some candidates incorrectly referenced companies or shareholders. There had to be the essence of shared ownership or view to profit rather than just working together.
- (b) Many candidates answered this question correctly. The most common error was the incorrect calculation of interest on capital for Amina due to her change in capital during the year. There were also several aliens included such as interest on drawings, current or capital account balances or drawings. Some candidates started with an incorrect profit or did not share the profit correctly according to the profit share.
- (c) There was a wide range of marks here with weaker responses gaining very few marks. In terms of the capital account there were often alien items such as drawings and interest on capital and the narrative for the \$10 000 cash was sometimes incorrectly labelled as bank. With the current account there were often entries missing, capital account balances were present and the balances b/d were incorrectly labelled. Items were sometimes reversed in both ledger accounts.
- (d) Some candidates clearly demonstrated the impact on the financial statements by making the link to the increase in non-current liabilities and the impact on the increased expenses for the loan interest causing profit for the year to fall. There were also some vague answers.

- (e) There were some very vague answers to this question which sometimes repeated the question, or made an attempt at a point but then little or no development. Many candidates cited the unfairness of the actions of Samara but they were unable to pinpoint the impact on both the partnership and Amina.

ACCOUNTING

Paper 0452/21
Paper 21

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. A factually correct statement, which is not the answer to the question being asked, cannot be awarded credit.

Where appropriate, candidates are advised to provide supporting calculations. This ensures that some credit may be earned even though the final answer may be 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 inappropriate abbreviations such as 'b/d' for 'balance' in ledger accounts and 'PFDD' for 'Provision for doubtful debts'

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of 'old' terminology such as 'stock' and 'net profit' etc.

It is also 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 questions and were familiar with the correct format of financial statements.

It is important that candidates present accounting statements in the correct format and that appropriate descriptions are used in both financial statements and in ledger accounts. The written answers produced in some of the narrative questions were vague and lacked clarity. Accounting is a subject in which precision is extremely important.

All the day to day records of a business are based on double entry bookkeeping. Candidates must have a good knowledge of double entry and must be able to apply this to the various scenarios. In addition to the figures in the account, attention must be given to the words entered in the details column and to the dates.

Comments on specific questions

Question 1

- (a) Double entry book keeping continues to prove challenging to candidates. This question revealed some weaknesses in candidates' knowledge of this topic.

Many candidates used incorrect wording in the details column particularly in the rent account.

Common errors included:

- Not appreciating that accounts should be closed by balancing, transferring to another ledger account, or transferring to income statement.
- In Brian's account details for the cash received was often given as 'bad debt', 'cash' or even 'balance carried down'.
- Reversal of the entries in the bad debts recovered account
- Provided incorrect calculations and details for the entry for drawings in the rent account
- Not recognising that the balance on the drawings account should be transferred to the capital account; it regularly remained as a closing balance
- Included the closing balance carried down on the debit side of the commission receivable account resulting in an incorrect value transferred to the income statement. Some candidates also omitted to bring down the closing balance.
- Incorrectly posted the depreciation to the debit side of the provision for depreciation account.
- Depreciation charge based on the straight line method rather than the reducing balance method.
- Mislabelled the amount transferred to the income statement as depreciation.

- (b) This was well answered with many candidates earning full marks.

- (c) This was reasonably well answered with many candidates earning the one mark available. Some candidates however, simply wrote 'based on past experience' which was insufficient as they did not clarify 'what' past experience they were referring to.

- (d) A common error was to reverse the entries. Other incorrect answers included trade receivables instead of income statement, bad debts written off and bad debts recovered in lieu of provision for doubtful debts.

- (e) In this question, many candidates only earned one mark as they only focused on profit not being overstated and ignored the trade receivables/current assets. Where candidates did write about the assets they did not specify which type of assets would be affected.

- (f) Many candidates earned one mark as they commented that 'expenses are matched with revenue generated in the same financial year' but only the better candidates earned the second mark and these were in the minority. Several candidates incorrectly stated 'expenses are matched against profit for the year'.

- (g) Many candidates knew at least one way in which a trader could reduce the amount of bad debts. The better candidates were able to **earn** two marks. Candidates were not always specific enough in their responses and lost valuable marks as a consequence. Common errors included:

- 'Fix a credit limit' but they did not mention that, to be effective, this had to be done 'for each customer'.
- Duplicating their response i.e. 'reduce credit sales' and 'sell on a cash basis'.
- 'Charge interest' but didn't clarify that this would apply to late payments.
- 'Issuing invoices and monthly statements' but didn't clarify that this needed to be done promptly to be effective.
- 'Extend payment period'.

Question 2

- (a) Candidates were asked to identify where items would appear in the sales ledger control account and to indicate if the item would not appear. There were many good answers. The items often incorrectly treated were the cash received from credit customers, trade discount allowed to credit customers and the provision for doubtful debts.
- (b) Many candidates were unable to correctly name the books of prime entry. Common errors included:
- Purchases returns ledger, sales returns journal and credit note received for 'returns to credit suppliers'
 - Instead of cash book, candidates wrote general journal, purchases journal and general ledger
 - Instead of journal for the last two entries, candidates wrote, sales journal, purchases journal and cash book.
- (c) Many candidates found it difficult to state the meaning of a contra entry in connection with control accounts and to provide a reason for making such an entry.
- Some candidates confused the meaning with the reason and vice versa .
- A significant number of candidates described the contra entries made in a cash book even though the question specifically referred to contra entries in connection with control accounts. Others incorrectly stated that contra entry was necessary 'to ensure no fraud had been committed' or 'to reduce number of payments or entries'.
- (d) Most candidates made a reasonable attempt at this question. However, candidates should ensure their answers include enough detail. When asked for a reason why the purchases ledger control account had a debit balance, it is not sufficient to write that the company returned goods. The candidate needs to make it clear that the returns were after the balance was paid.
- Some candidates incorrectly wrote about customers paying in advance suggesting they were referring to a sales ledger account.
- (e) The majority of candidates were able to correctly state the formula for the trade receivables collection period and calculate it.
- However, some candidates lost the mark because their formula multiplied by 30 or 100 or simply omitted the 365. Others incorrectly identified their denominator as sales (not specifying credit sales) or they used revenue as the numerator.
- Candidates performed the calculation well but had not read the question carefully and did not round up to the next whole day; the most frequent incorrect answer was 40 days. Alternatively candidates incorrectly calculated their collection period as 33 days where they had used \$229 000 (total sales) as the denominator.
- (f) Candidates were asked to state how the trader might improve their trade receivables collection period.
- This was reasonably well answered. However, some candidates thought that 'reducing credit sales/sell on cash basis' could improve the collection period.
- (g) Most candidates were able to correctly state the formula for the trade payables payment period but there were candidates who incorrectly multiplied by 30 or 100 or completely omitted the 365. Alternatively, some candidates did not specify 'credit' purchases as their denominator or they used gross profit as the numerator.
- (h) Most candidates found it difficult to make appropriate comments on the reaction of the trader's credit suppliers to the change in the ratio. Answers were often limited to a basic comment about credit suppliers being unhappy or dissatisfied with the change in the ratio.

Question 3

- (a) This part was generally very well answered with many candidates correctly calculating the subscriptions for the year and earning all the available marks. A minority of treated the accrued and prepaid subscriptions incorrectly.
- (b) This was well answered by many candidates. Common errors were:
- Entered the amounts for the purchases and revenue of the sportswear without netting them to show the profit for the shop.
 - Entered the open day expenses and receipts as two separate amounts rather than show them as a net expense.
 - Did not use their answer from (a) for their subscriptions figure and incorrectly used \$12540 (amount of receipts in the year).
 - Depreciated the equipment based on NBV rather than cost (\$5120).
 - Omitted depreciation and loan interest entirely from their expenses.
 - Deducted insurance prepaid at the start of the year rather than adding it to their insurance figure.
 - Included extraneous items in the income and expenditure account, such as the purchase of new equipment \$8000.
 - Incorrectly labelled the deficit for the year as 'loss' or 'profit' or 'accumulated fund'.
- (c) Candidates were required to prepare the statement of financial position. Very few candidates scored the maximum marks available. Common errors included not adjusting the cost of equipment for the purchase made during the year and omitting to add \$4400 to the depreciation charge calculated in 3(b). Subscriptions owed of \$240 were often omitted from current assets. The accumulated fund was sometimes mislabelled as capital and candidates did not realise that the opening balance should have been calculated from the information given in the question and incorrectly used their own 'balancing' figure. Current liabilities were often omitted altogether. The bank was often shown in current assets as candidates did not appreciate that the closing balance on the receipts and payments account represented an overdraft.
- (d) Stronger responses were able to explain why the outstanding loan interest should not be credited to the loan account. However, some candidates stated that the loan interest accrued was a liability, omitting the word current. Some candidates' answers were restricted to a comment about interest and made no mention of the loan.

Question 4

- (a) Most candidates were able to correctly calculate the current ratio. However, some candidates did not correctly round to two decimal places as required. The most common incorrect answer was 0.69:1 where the numerator and denominator were reversed. A few candidates gave 0.57:1 as their answer which was the quick ratio.
- (b) Most candidates earned one mark on this part with the majority stating that current assets were greater than current liabilities. Some candidates did not specify 'current' and only wrote about assets and liabilities and did not get a credit.
- (c) Most candidates were able to correctly calculate the quick ratio. The most common incorrect answer was 0.69:1 where the candidates only took trade receivables and trade payables into account.
- (d) This was well answered with most candidates earning at least one mark and many earning two marks. Some candidates incorrectly thought that 'less sales in the year' was a valid reason for the change in the quick ratio.
- (e) Another well answered question but some candidates did reverse the movement in the trade payables and trade receivables so lost the marks. In addition, some candidates wrote about a decrease in current assets without specifying which current assets.

- (f) Candidates were asked to complete a table showing how two transactions would affect the current and quick ratios. For 'obtaining a short-term loan' most candidates incorrectly thought this would decrease both the current ratio and the quick ratio not appreciating that both current assets and current liabilities remained unchanged by the transaction due to the bank overdraft.
- (g) Most candidates were able to correctly state the formula for the calculation of the rate of inventory turnover. Some candidates reversed the equation or multiplied by 365 or 100. Other incorrect answers included revenue divided by average inventory and gross profit divided by average inventory.
- (h) A common error was using \$95250 as the denominator because they had added the \$15500 rather than deducting it to establish their opening inventory.
- (i) This was reasonably well answered. Some candidates knew that sales activity and levels of inventory would affect the rate but incorrectly wrote 'higher' sales and 'lower' inventory levels and many incorrectly mentioned cost of sales.

Question 5

- (a) Candidates were asked to calculate the return on capital employed. Many candidates found this challenging. A variety of figures were used as the denominator such as the debentures (\$75000), share capital (\$500000) instead of capital employed. In addition, there were a few candidates who divided \$43000 by \$600000 but did not multiply by 100 so the answer was not expressed as a percentage.
- (b) The most common incorrect answer was 25%, calculated either by \$10000 divided by \$400000 or \$25000 divided by \$100000.
- (c) This another difficult challenging question for the candidates with few of them earning the maximum three marks available. Candidates confused the dates that the dividends were paid and the years that they related to. Common incorrect answers included \$15000 divided by \$600000, \$40000 divided by \$600000 and \$70000 divided by \$600000.
- (d) Many candidates earned full marks available for this. Where candidates made errors, these included using the profit at 1 October \$43000 rather than \$71000 at 30 September 2017, incorrectly calculating the debenture interest ($\$71000 \times 0.03$, rather than $\$75000 \times 3\%$) and adding the debenture interest to the profit figure ($\$71000 + \2250).
- (e) There were some very well presented and correct answers for the statement of changes in equity. However, there were also some very poor answers with the most common errors being:
- The use of dates instead of narratives.
 - The use of incorrect narratives (retained profit instead of profit for the year).
 - Figures in incorrect columns.
 - The inclusion of erroneous items, namely debentures, debenture interest and proposed dividends.
 - Reductions to equity incorrectly shown as positive figures.
 - Incorrectly totalled columns.
- (f),(g) This was reasonably well answered except some candidates omitted to mention 'fixed' when writing about interest. Some candidates stated that a debenture is a loan without specifying that it is 'long term'. Also some candidates were confused as to which earned interest and which earned dividend
- (h) Few candidates earned full marks available for this question. Some candidates simply placed a tick in the increase and decrease columns even though the example provided showed a value. The effect on non-current liabilities was often a tick in the no effect column as was the effect on profit on the year. Some candidates thought that profit would be decreased by \$300 000, the value of the debentures, rather than by the interest payable. And the effect on equity was often shown as \$300 000 in the increase column as some candidates did not appreciate that debentures are a long-term liability and not part of a company's equity.

ACCOUNTING

Paper 0452/22
Paper 22

Key messages

Candidates are reminded of the importance of reading 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.

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 inappropriate abbreviations such as 'bbd' for 'balance' in ledger accounts or 'PDD' for 'Provision for Doubtful debts' in financial statements.

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of 'old' terminology such as 'stock' and 'net profit' etc.

General comments

Candidates are expected to present accounting statements in the correct format and use appropriate description in both financial statements and in ledger accounts. The written answers produced in some of the narrative questions were vague and lacked clarity. Accounting is a subject in which precision is extremely important.

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 entered in the details column, the dates and the order of the items.

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

Comments on specific questions

Question 1

- (a) (i) Candidates were required to select the appropriate transactions and enter them in a petty cash book. There were some good responses. A few candidates incorrectly also included transactions which related to the main cash book. The most common error was to omit the restoration of the imprest amount on 1 September.
- (ii) A three column cash book had to be prepared. This should have been a straightforward question. Whilst there were some good responses, weaker responses contained avoidable errors. The restoration of the petty cash imprest on 1 September was often omitted from the bank column. The calculation of the two cash discounts proved challenging for a significant number of candidates. Candidates are reminded of the importance of showing correct details. The name of the account in which the double entry will be made should appear in the details column, so details such as

'dishonoured cheque' and 'office machinery' were not acceptable. Those candidates who did not leave \$40 of the amount received from sales in the cash column showed an 'overdrawn' cash balance at the month-end, which, like the petty cash, is not possible. A small number did not take the opening balances into account when calculating the closing balances

- (b) The bank statement balance was provided together with details of items which did not appear on the bank statement. Candidates were required to prepare a statement to reconcile the bank statement balance with that shown in their cash book prepared in **Part (a) (ii)**. This proved to be a challenging task for many candidates. Many candidates incorrectly treated the overdrawn bank statement balance as a positive figure, which often resulted in incorrect treatment of the adjustments. Once again, incorrect descriptions were provided. For example the cheque not credited was incorrectly labelled (this cheque was one which was not presented). A bank reconciliation statement should be presented in the form of a statement as it is not a ledger account.

Question 2

- (a) Using information provided, candidates were required to prepare a manufacturing account. Some candidates produced very good answers but a small number seemed somewhat unprepared and attempted an income statement or even a statement of financial position. It is important that items are included in the correct position. For example the purchases should be adjusted for returns, then the carriage inwards should be added and then the closing inventory should be deducted. It is incorrect to insert the closing inventory before the purchases and the related adjustments.

The significant figures in a manufacturing account such as cost of materials consumed, prime cost and cost of production should be labelled. A number of candidates incorrectly included the supervisors' wages in the calculation of the prime cost and included extraneous items such as carriage outwards in the overheads. The two items of depreciation should have been labelled as 'depreciation' accompanied by the names of the assets concerned.

- (b) Candidates were required to use the cost of production calculated in **Part (a)** together with information in the question, and calculate the cost of sales. This proved challenging task for many with extraneous items such as sales being included in the calculation.
- (c) One disadvantage of a bank loan had to be stated. The majority of candidates gained the available mark. The imposition of loan interest was the most popular answer.
- (d) Two other ways of raising long-term funds had to be stated. Many correctly suggested introducing additional capital, taking a partner or mortgaging non-current assets. Those candidates who suggested using shares and debentures did not seem to appreciate that the sole trader's business would have to be converted to a limited company before this was possible. A number of candidates incorrectly suggested short-term measures such as reducing expenses and increasing selling prices. Such measures are not suitable for raising long-term funds for expansion.

Question 3

- (a) Using the information provided, a commission receivable account had to be prepared. The well-prepared candidates earned high marks with the items on the correct sides of the account, correct details and dates being provided. A significant number of candidates reversed the account. Other errors include not transferring the income for the year to the income statement and not bringing down a balance on the first day of the next financial year.
- (b) Candidates were required to prepare a rent account from the information provided. Once again attention needed to be given to detail and dates. Again there were a number of reversed accounts. Those candidates who read the question carefully correctly debited the rent account with two payments of \$4800. The expense for the year should have been transferred to the income statement and a balance carried down to the debit of the account to state the following financial year.

- (c) The entries in a stationery account had to be explained. Many of the answers were somewhat vague. For example the explanation of the balance was 'this is the balance' was not adequate: it should have been stated that this was the inventory of stationery held at that date. An explanation of the item on 8 February should have stated that this recorded the purchase of stationery on credit from XY Limited. The explanation of the drawings entry often incorrectly referred to the owner withdrawing goods or cash. Many candidates correctly named the account where the double entry would be made but did not state whether that entry would be a debit or a credit.
- (d) The expense for the year for stationery had to be calculated. Many candidates correctly stated the figure of \$205 as the expense for the year. A common incorrect figure was \$281, which had not been adjusted for the closing inventory of stationery of \$76.
- (e) Most candidates correctly identified the current assets as being the section of the statement of financial position in which the balance of the stationery account would appear.
- (f) A table had to be completed to indicate the effect of six errors on the gross profit and the profit for the year. The first item was completed as an example. Items two, five and six seemed to prove challenging. If the opening inventory is overvalued both the gross profit and the profit for the year will be understated. Including carriage in the expenses will mean that the gross profit is overstated, but will not have any effect on the profit for the year. Adding purchases returns to the purchases means that the cost of sales is overstated so the gross profit and the profit for the year are both understated.

Question 4

- (a) Using information provided, candidates were required to prepare an income statement for a sole trader. There were some very good answers. As with **Question 2(a)** attention should have been given to the presentation. Items were often shown in the wrong order, for example the closing inventory was incorrectly shown before the purchases, and carriage inwards was incorrectly inserted after the closing inventory. Subtotals such as net revenue, net purchases and cost of sales were often omitted. In the expenses section it was common to find the bad debt was omitted. There were several incorrect calculations of depreciation and loan interest. A number of candidates included extraneous items such as office equipment and loan. Candidates are reminded of the benefit of showing calculations for items which require adjustment such as loan interest and rates and insurance.
- (b) Candidates were required to explain how the accruals (matching) principle was applied in the preparation of the income statement and to provide a suitable example. Most candidates understood that revenue should be matched with expenses but did not qualify this by adding 'in the same financial year'. Many candidates correctly offered the creation of a provision for doubtful debts and the adjustment for loan interest accrued as examples.
- (c) An explanation was required of how the business entity principle had been applied and the provision of a suitable example. Many candidates understood that the business is regarded as being separate from the owner (though a few did state they were separate legal entities). Adjusting the rates and insurance for the personal use was usually correctly identified as the example of this application of this principle.
- (d) Candidates were required to explain two factors which the trader should consider when comparing her financial statements with those of another business. Many did not appreciate that an explanation was required and limited their answers to two basic statements. Those statements were often generic and no explanations were provided linking these to the trader named in the question.

Question 5

- (a) Using information provided, candidates were required to prepare an opening journal entry. A significant number of candidates appeared to be unprepared for this question. In an opening journal entry the assets which are present on that date are listed in the debit column, the liabilities and capital are then listed in the credit column. A significant number of candidates included the extraneous item of loan interest. Many attempted an individual debit and credit entry for each item, for example debiting the shop fittings and crediting the bank. Most of these candidates did not arrive at the correct figures for bank and cash.

- (b) Journal entries had to be prepared for two transactions. The narratives provided by some candidate were vague and incomplete. For example 'drawings by Ben' was not regarded as adequate.
- (c) Most candidates showed some understanding of the terms capital expenditure and revenue expenditure and were able to provide a short explanation and an appropriate example. The explanation of the term revenue receipts caused some problems. Many provided an example (often the same) for both the explanation and the example. A significant number confused this with the source document used to acknowledge receipt of money.
- (d) A table had to be completed to indicate the effect of three errors on the assets, liabilities and profit. The first one was completed as an example. Error 2 proved to be challenging for a significant number of candidates. Treating loan interest as partial repayment of the loan would not affect the assets, but would cause the liabilities to be understated and the profit to be overstated. Debiting the shop fittings account with repairs would mean that both the assets and the profit were overstated.

ACCOUNTING

Paper 0452/23
Paper 23

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. A factually correct statement, which is not the answer to the question being asked, cannot be awarded credit.

Where appropriate, candidates are advised to provide supporting calculations. This ensures that some credit may be earned even though the final answer may be 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 inappropriate abbreviations such as 'b/d' for 'balance' in ledger accounts and 'PFDD' for 'Provision for doubtful debts'.

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of 'old' terminology such as 'stock' and 'net profit' etc.

It is also 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 questions and were familiar with the correct format of financial statements.

It is important that candidates present accounting statements in the correct format and that appropriate descriptions are used in both financial statements and in ledger accounts. The written answers produced in some of the narrative questions were vague and lacked clarity. Accounting is a subject in which precision is extremely important.

All the day to day records of a business are based on double entry bookkeeping. Candidates must have a good knowledge of double entry and must be able to apply this to the various scenarios. In addition to the figures in the account, attention must be given to the words entered in the details column and to the dates.

Comments on specific questions

Question 1

- (a) Double entry book keeping continues to prove challenging to candidates. This question revealed some weaknesses in candidates' knowledge of this topic.

Many candidates used incorrect wording in the details column particularly in the rent account.

Common errors included:

- Not appreciating that accounts should be closed by balancing, transferring to another ledger account, or transferring to income statement.
- In Brian's account details for the cash received was often given as 'bad debt', 'cash' or even 'balance carried down'.
- Reversal of the entries in the bad debts recovered account
- Provided incorrect calculations and details for the entry for drawings in the rent account
- Not recognising that the balance on the drawings account should be transferred to the capital account; it regularly remained as a closing balance
- Included the closing balance carried down on the debit side of the commission receivable account resulting in an incorrect value transferred to the income statement. Some candidates also omitted to bring down the closing balance.
- Incorrectly posted the depreciation to the debit side of the provision for depreciation account.
- Depreciation charge based on the straight line method rather than the reducing balance method.
- Mislabelled the amount transferred to the income statement as depreciation.

- (b) This was well answered with many candidates earning full marks.

- (c) This was reasonably well answered with many candidates earning the one mark available. Some candidates however, simply wrote 'based on past experience' which was insufficient as they did not clarify 'what' past experience they were referring to.

- (d) A common error was to reverse the entries. Other incorrect answers included trade receivables instead of income statement, bad debts written off and bad debts recovered in lieu of provision for doubtful debts.

- (e) In this question, many candidates only earned one mark as they only focused on profit not being overstated and ignored the trade receivables/current assets. Where candidates did write about the assets they did not specify which type of assets would be affected.

- (f) Many candidates earned one mark as they commented that 'expenses are matched with revenue generated in the same financial year' but only the better candidates earned the second mark and these were in the minority. Several candidates incorrectly stated 'expenses are matched against profit for the year'.

- (g) Many candidates knew at least one way in which a trader could reduce the amount of bad debts. The better candidates were able to **earn** two marks. Candidates were not always specific enough in their responses and lost valuable marks as a consequence. Common errors included:

- 'Fix a credit limit' but they did not mention that, to be effective, this had to be done 'for each customer'.
- Duplicating their response i.e. 'reduce credit sales' and 'sell on a cash basis'.
- 'Charge interest' but didn't clarify that this would apply to late payments.
- 'Issuing invoices and monthly statements' but didn't clarify that this needed to be done promptly to be effective.
- 'Extend payment period'.

Question 2

- (a) Candidates were asked to identify where items would appear in the sales ledger control account and to indicate if the item would not appear. There were many good answers. The items often incorrectly treated were the cash received from credit customers, trade discount allowed to credit customers and the provision for doubtful debts.
- (b) Many candidates were unable to correctly name the books of prime entry. Common errors included:
- Purchases returns ledger, sales returns journal and credit note received for 'returns to credit suppliers'
 - Instead of cash book, candidates wrote general journal, purchases journal and general ledger
 - Instead of journal for the last two entries, candidates wrote, sales journal, purchases journal and cash book.
- (c) Many candidates found it difficult to state the meaning of a contra entry in connection with control accounts and to provide a reason for making such an entry.
- Some candidates confused the meaning with the reason and vice versa .
- A significant number of candidates described the contra entries made in a cash book even though the question specifically referred to contra entries in connection with control accounts. Others incorrectly stated that contra entry was necessary 'to ensure no fraud had been committed' or 'to reduce number of payments or entries'.
- (d) Most candidates made a reasonable attempt at this question. However, candidates should ensure their answers include enough detail. When asked for a reason why the purchases ledger control account had a debit balance, it is not sufficient to write that the company returned goods. The candidate needs to make it clear that the returns were after the balance was paid.
- Some candidates incorrectly wrote about customers paying in advance suggesting they were referring to a sales ledger account.
- (e) The majority of candidates were able to correctly state the formula for the trade receivables collection period and calculate it.
- However, some candidates lost the mark because their formula multiplied by 30 or 100 or simply omitted the 365. Others incorrectly identified their denominator as sales (not specifying credit sales) or they used revenue as the numerator.
- Candidates performed the calculation well but had not read the question carefully and did not round up to the next whole day; the most frequent incorrect answer was 40 days. Alternatively candidates incorrectly calculated their collection period as 33 days where they had used \$229 000 (total sales) as the denominator.
- (f) Candidates were asked to state how the trader might improve their trade receivables collection period.
- This was reasonably well answered. However, some candidates thought that 'reducing credit sales/sell on cash basis' could improve the collection period.
- (g) Most candidates were able to correctly state the formula for the trade payables payment period but there were candidates who incorrectly multiplied by 30 or 100 or completely omitted the 365. Alternatively, some candidates did not specify 'credit' purchases as their denominator or they used gross profit as the numerator.
- (h) Most candidates found it difficult to make appropriate comments on the reaction of the trader's credit suppliers to the change in the ratio. Answers were often limited to a basic comment about credit suppliers being unhappy or dissatisfied with the change in the ratio.

Question 3

- (a) This part was generally very well answered with many candidates correctly calculating the subscriptions for the year and earning all the available marks. A minority of treated the accrued and prepaid subscriptions incorrectly.
- (b) This was well answered by many candidates. Common errors were:
- Entered the amounts for the purchases and revenue of the sportswear without netting them to show the profit for the shop.
 - Entered the open day expenses and receipts as two separate amounts rather than show them as a net expense.
 - Did not use their answer from (a) for their subscriptions figure and incorrectly used \$12540 (amount of receipts in the year).
 - Depreciated the equipment based on NBV rather than cost (\$5120).
 - Omitted depreciation and loan interest entirely from their expenses.
 - Deducted insurance prepaid at the start of the year rather than adding it to their insurance figure.
 - Included extraneous items in the income and expenditure account, such as the purchase of new equipment \$8000.
 - Incorrectly labelled the deficit for the year as 'loss' or 'profit' or 'accumulated fund'.
- (c) Candidates were required to prepare the statement of financial position. Very few candidates scored the maximum marks available. Common errors included not adjusting the cost of equipment for the purchase made during the year and omitting to add \$4400 to the depreciation charge calculated in 3(b). Subscriptions owed of \$240 were often omitted from current assets. The accumulated fund was sometimes mislabelled as capital and candidates did not realise that the opening balance should have been calculated from the information given in the question and incorrectly used their own 'balancing' figure. Current liabilities were often omitted altogether. The bank was often shown in current assets as candidates did not appreciate that the closing balance on the receipts and payments account represented an overdraft.
- (d) Stronger responses were able to explain why the outstanding loan interest should not be credited to the loan account. However, some candidates stated that the loan interest accrued was a liability, omitting the word current. Some candidates' answers were restricted to a comment about interest and made no mention of the loan.

Question 4

- (a) Most candidates were able to correctly calculate the current ratio. However, some candidates did not correctly round to two decimal places as required. The most common incorrect answer was 0.69:1 where the numerator and denominator were reversed. A few candidates gave 0.57:1 as their answer which was the quick ratio.
- (b) Most candidates earned one mark on this part with the majority stating that current assets were greater than current liabilities. Some candidates did not specify 'current' and only wrote about assets and liabilities and did not get a credit.
- (c) Most candidates were able to correctly calculate the quick ratio. The most common incorrect answer was 0.69:1 where the candidates only took trade receivables and trade payables into account.
- (d) This was well answered with most candidates earning at least one mark and many earning two marks. Some candidates incorrectly thought that 'less sales in the year' was a valid reason for the change in the quick ratio.
- (e) Another well answered question but some candidates did reverse the movement in the trade payables and trade receivables so lost the marks. In addition, some candidates wrote about a decrease in current assets without specifying which current assets.

- (f) Candidates were asked to complete a table showing how two transactions would affect the current and quick ratios. For 'obtaining a short-term loan' most candidates incorrectly thought this would decrease both the current ratio and the quick ratio not appreciating that both current assets and current liabilities remained unchanged by the transaction due to the bank overdraft.
- (g) Most candidates were able to correctly state the formula for the calculation of the rate of inventory turnover. Some candidates reversed the equation or multiplied by 365 or 100. Other incorrect answers included revenue divided by average inventory and gross profit divided by average inventory.
- (h) A common error was using \$95250 as the denominator because they had added the \$15500 rather than deducting it to establish their opening inventory.
- (i) This was reasonably well answered. Some candidates knew that sales activity and levels of inventory would affect the rate but incorrectly wrote 'higher' sales and 'lower' inventory levels and many incorrectly mentioned cost of sales.

Question 5

- (a) Candidates were asked to calculate the return on capital employed. Many candidates found this challenging. A variety of figures were used as the denominator such as the debentures (\$75000), share capital (\$500000) instead of capital employed. In addition, there were a few candidates who divided \$43000 by \$600000 but did not multiply by 100 so the answer was not expressed as a percentage.
- (b) The most common incorrect answer was 25%, calculated either by \$10000 divided by \$400000 or \$25000 divided by \$100000.
- (c) This another difficult challenging question for the candidates with few of them earning the maximum three marks available. Candidates confused the dates that the dividends were paid and the years that they related to. Common incorrect answers included \$15000 divided by \$600000, \$40000 divided by \$600000 and \$70000 divided by \$600000.
- (d) Many candidates earned full marks available for this. Where candidates made errors, these included using the profit at 1 October \$43000 rather than \$71000 at 30 September 2017, incorrectly calculating the debenture interest ($\$71000 \times 0.03$, rather than $\$75000 \times 3\%$) and adding the debenture interest to the profit figure ($\$71000 + \2250).
- (e) There were some very well presented and correct answers for the statement of changes in equity. However, there were also some very poor answers with the most common errors being:
- The use of dates instead of narratives.
 - The use of incorrect narratives (retained profit instead of profit for the year).
 - Figures in incorrect columns.
 - The inclusion of erroneous items, namely debentures, debenture interest and proposed dividends.
 - Reductions to equity incorrectly shown as positive figures.
 - Incorrectly totalled columns.
- (f),(g) This was reasonably well answered except some candidates omitted to mention 'fixed' when writing about interest. Some candidates stated that a debenture is a loan without specifying that it is 'long term'. Also some candidates were confused as to which earned interest and which earned dividend
- (h) Few candidates earned full marks available for this question. Some candidates simply placed a tick in the increase and decrease columns even though the example provided showed a value. The effect on non-current liabilities was often a tick in the no effect column as was the effect on profit on the year. Some candidates thought that profit would be decreased by \$300 000, the value of the debentures, rather than by the interest payable. And the effect on equity was often shown as \$300 000 in the increase column as some candidates did not appreciate that debentures are a long-term liability and not part of a company's equity.