

ACCOUNTING

Paper 7707/12
Multiple Choice

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

Key messages

Candidates must have a thorough knowledge and understanding of double entry book-keeping and be familiar with all the topics on the syllabus.

It is important that candidates recognise the importance of reading an item very carefully and making sure they know exactly what is required before attempting to select the Key.

General comments

Those candidates who possessed a good understanding of double entry book-keeping were able to perform well.

Two items proved to be more difficult for some candidates.

Comments on specific questions

Question 4

Owner's equity may be referred to as the owner's capital. It represents the amount owed by the business to the owner. A number of candidates selected Option **D** which refers to working capital.

Question 8

The majority of candidates understood that the transaction related to sales returns rather than purchases returns. Many did not appreciate that if cash discount is to be allowed it is only recorded when payment is made not when goods are sold or returned.

Question 11

Many candidates did not fully appreciate how the two errors affected the profit for the year. If rent prepaid is understated then the amount charged as an expense is overstated, so the profit was understated. If closing inventory is understated then the cost of sales is overstated which results in the gross profit and the profit for the year being understated.

Question 12

Most candidates had difficulty with this item. The bank statement showed a positive balance. The two items not entered in the cash book both involved money going into the trader's bank account. Before updating, the cash book would show a smaller balance than that on the bank statement.

Question 13

The majority of candidates understood that the purpose of a sales ledger control account is not to identify irrecoverable debts and not to provide the total owed to trade payables. A sales ledger control account does not show the total of the cash and credit sales.

Question 14

This proved to be challenging for some candidates. Information about returns to credit suppliers would be obtained from the purchases returns journal. Information about refunds from credit suppliers would be obtained from the cash book. Irrecoverable debts written off do not affect the purchases ledger. Contra entries with the sales ledger would not appear in any of the other books of prime entry so would be recorded in the general journal.

Question 16

Machinery repairs had been entered in the asset account which resulted in the depreciation for the year being \$400 (20 per cent $\times$ \$2000) more than it should have been. The provision for depreciation account would also show a balance of \$400 more than it should have been. The Key was **B**.

Question 19

It was anticipated that candidates would know that inventory is always valued at the lower of cost and net realisable value. Product H should be valued at 800 units at \$1.20 each and Product G should have been valued at 900 units at \$2 each.

Question 21

The majority of candidates correctly calculated that there was a prepayment of \$400. Many did not appreciate that this was rent receivable paid in advance and not rent payable. Where a tenant pays rent in advance it is a current liability as the business has received money for which a service has not yet been provided.

Question 25

The opening and closing cash balances were known and the trader wished to calculate his cash sales. To do this he would need to include in the calculation any items which affected the cash. In this case it was cash banked, the cash drawings and the cash expenses. Cash discount would not affect the amount of cash.

Question 26

There was uncertainty on how to answer this question. The preparation of a 'T' account for the total trade receivables would have shown that the opening balance and the credit sales appear on the debit side and the receipts from credit customers and the discount allowed appear on the credit side. The correct calculation for the missing figure of credit sales was Option **D**.

Question 27

The statistics indicate that candidates were very unsure on how to make the necessary calculations. The rate of inventory turnover equals the cost of sales divided by the average inventory. In this case the cost of sales was not known but could be calculated by changing the formula round. The cost of sales was \$480 000 ($6 \times \$80\,000$). The mark-up was 25 per cent so the sales were \$600 000 ($\$480\,000 + 25 \text{ per cent}$).

Question 29

The incorrect selection of Options **A** and **C** by a significant number of candidates indicates that they did not appreciate the significance of the gross margin. The gross margin represents the gross profit as a percentage of the revenue. Changes to items appearing in the profit and loss section of an income statement will not affect the gross margin. Reducing the rate of trade discount allowed to customers will mean that the revenue increases so the gross margin will improve.

Question 30

Many candidates did not appreciate that if 1500 units were sold the cost of sales would be \$6750 ($1500 \text{ units} \times \4.50). The gross profit was \$5250 ($\$5500 - \250). The total value of sales was \$12 000 ($\$6750 + \5250).

Question 31

The return on capital employed is the profit for the year expressed as a percentage of capital employed. Ordinary share dividend paid does not affect the profit for the year, but it does reduce retained earnings. If the amount of retained earnings decreases the capital employed also decreases. If the capital employed decreases and the profit remains the same then return on capital employed will increase.

Question 35

Some candidates found this item quite difficult. The word 'not' was emboldened in the stem to make candidates aware that this was a negative item. Almost half of the candidates incorrectly selected Option **D**. One of the main aims of international accounting standards is to reduce the variety of accounting practices worldwide so this answer is definitely a distractor and not the Key. Of the four options **A**, **C** and **D** are all aims of international accounting standards. The Key was **B**.

ACCOUNTING

Paper 7707/13
Multiple Choice

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

Key messages

It is important that candidates must have a thorough knowledge and understanding of double entry book-keeping and be familiar with all the topics on the syllabus.

Candidates are reminded of the importance of reading an item very carefully and making sure they know exactly what is required before attempting to select the Key.

General comments

Those candidates who possessed a good understanding of double entry book-keeping were able to perform well.

Two items proved to be slightly more difficult.

Comments on specific questions

Question 1

Candidates should know that financial statements assist the trader to make decisions about the future.

Question 2

Only 25 per cent of the candidates selected the Key, **B**. 65 per cent of candidates treated the loan as a liability and incorrectly selected Option **D** as the Key. Hussein made a loan to another individual so this represents an amount due to Hussein so is an asset to him not a liability.

Question 3

There was some uncertainty about this item. Many candidates did not appreciate that the account appeared in Mary's books so everything was recorded from her viewpoint.

Question 6

The majority of candidates incorrectly selected Option **B** as the Key. If the total of the debit column of a trial balance is \$500 more the total of the credit column it may indicate that an amount of \$250 had been entered on the wrong side. The items described in Options **B**, **C** and **D** were all recorded on the correct side of the trial balance. The bank overdraft was incorrectly entered so the Key was **A**.

Question 7

Rent received had been debited to the rent receivable account and credited to the cash book. This was an error of complete reversal.

Question 9

Many candidates did not fully appreciate how the two errors affected the profit for the year. If rent prepaid is understated then the amount charged as an expense is overstated, so the profit should be higher than shown in the draft income statement. If closing inventory is understated then the cost of sales is overstated which results in the gross profit and the profit for the year being understated.

Question 10

A sales ledger control account is a summary of the accounts of the credit customers (the trade receivables). Cash sales do not appear in the account of a credit customer so do not appear in a sales ledger control account.

Question 11

If an item of revenue expenditure is recorded as capital expenditure it means that the expenses in the income statement are less than they should be, so the profit for the year is overstated. The non-current assets in the statement of financial position are also overstated.

Question 12

A significant number of candidates incorrectly identified Option **D** as the Key. Revaluation is a method of calculating the annual depreciation which completely unconnected to the reducing balance method. When applying the reducing balance method of depreciation the charge for the year is calculated using the net book value. The net book value decreases year by year so the annual depreciation charge decreases each year.

Question 13

Machinery repairs had been entered in the asset account which resulted in the depreciation for the year being \$400 (20 per cent $\times$ \$2000) more than it should have been. The provision for depreciation account would also show a balance of \$400 more than it should have been.

Question 14

The majority of candidates understood that a prepayment of insurance is a current asset. Those candidates with a thorough understanding of double entry understood that a prepaid expense is carried down as a balance from the credit side of the expense account and brought down as a debit balance to start the following financial year.

Question 15

An understanding of the principles of double entry book-keeping was useful in determining the correct journal entry for transferring the income for the year to the income statement. The majority of candidates correctly calculated that the income for the year was \$5600. In order to add this income to the gross profit it is necessary to credit the income statement, so the debit entry will be in the rent receivable account.

Question 17

It was anticipated that candidates would know that inventory is always valued at the lower of cost and net realisable value. Product H should be valued at 800 units at \$1.20 each and Product G should have been valued at 900 units at \$2 each.

Question 18

A service business does not buy and sell goods, so does not have either a cost of sales or a gross profit.

Question 20

This should have been a relatively straightforward item. The partner's salary must be deducted before profit is shared between the partners. This means that the share of the residual profit was \$24 000 for John and \$16 000 for Mark. The total amount credited to John's current account was \$36 000 (profit share + salary) and the total amount credited to Mark's current account was \$16 000.

Question 21

This proved to be more difficult than anticipated. The only entries in the capital account of a partner are those which record permanent increases and permanent decreases of capital. A loan from a partner should be recorded in a loan account. Interest on a partner's capital should be recorded in the partner's current account. The correct closing balance on the partner's capital account was \$100 000 (Option **B**).

Question 23

The statistics indicate a degree of uncertainty about preference shares. The word 'not' was emboldened in the stem to alert candidates to the fact that this was a negative item. Options **A**, **B** and **C** are all correct statements.

Question 24

Many candidates found this item difficult. It was expected that candidates would appreciate that only monies paid and received are recorded in a receipts and payments account. In this item, the receipts and payments account was prepared one year after the formation of the club and at the end of the financial year some subscriptions were in arrears. These would not be included in the account as they had not been received during the financial year to which that account relates.

Question 26

In a manufacturing account the cost of production is adjusted for opening and closing work in progress. The value at the start of the year is added and the value at the end of the year is deducted. In this situation, there is a net amount of \$9350 to deduct. The effect of this is to decrease the cost of production which also results in a decrease in the cost of sales.

Question 27

The statistics indicate that candidates were very unsure on how to make the necessary calculations. The rate of inventory turnover equals the cost of sales divided by the average inventory. In this case the cost of sales was not known but could be calculated by changing the formula round. The cost of sales was \$480 000 ($6 \times \$80\,000$). The mark-up was 25 per cent so the sales were \$600 000 ($\$480\,000 + 25$ per cent).

Question 28

The trade payables turnover is an indication of the average number of days as trader takes to pay the credit suppliers. If this increases it indicates that the trader is taking longer to pay the accounts.

Question 29

This proved to be more difficult than anticipated. The formula for the calculation of the rate of inventory turnover is cost of sales divided by average stock. If the rate of inventory turnover increases it indicates that the business is selling and replacing its goods more quickly. The rate of turnover will decrease if the cost of sales decreases. The same thing occurs if the inventory increases. Selling price does not directly affect the rate of turnover.

Question 31

The incorrect selection of Options **A** and **C** by a significant number of candidates indicates that they did not appreciate the significance of the gross margin. The gross margin represents the gross profit as a percentage of the revenue. Changes to items appearing in the profit and loss section of an income statement will not affect the gross margin. Reducing the rate of trade discount allowed to customers will mean that the revenue increases so the gross margin will improve.

Question 32

A trader was considering calculating the annual depreciation on the net book value of machinery rather than continuing to apply the straight-line method. Using the straight-line method the annual depreciation would be \$6000 and using the reducing balance method the depreciation for the year would be \$3600. In accounting it is recommended that the same method is applied year-on-year unless there is a good reason for change. Applying the principle of consistency, the Key was **C**.

Question 35

Some candidates found this item very difficult. The word 'not' was emboldened in the stem to make candidates aware that this was a negative item. Almost half of the candidates incorrectly selected Option **D**. One of the main aims of international accounting standards is to reduce the variety of accounting practices worldwide so this answer is definitely a distractor and not the Key. Of the four options **A**, **C** and **D** are all aims of international accounting standards.

ACCOUNTING

Paper 7707/22

Paper 22

Key messages

This is the first year of assessment of the new syllabus. Candidates were required to answer five set questions of 20 marks each. Increased emphasis had also been placed upon discussion style questions that used accounting information to arrive at a recommended course of business action.

Candidate responses have generally been very encouraging and this broader base of knowledge and skill requirement has been linked effectively to the understanding and production of financial systems and accounting statements.

General comments

Candidates' performance has been reasonable. Strong candidate responses demonstrated their understanding of double entry bookkeeping. There were many examples of well-presented financial statements for limited companies in **Question 3**. This was in contrast to **Question 2** on non-trading organisations, where many candidates had only a superficial level of understanding of the processes involved.

The calculation of ratios in **Question 4** were very well answered, but this was often not accompanied with an appreciation of the reasons behind the changes in them.

There were three questions that required advantages and disadvantages to be considered culminating in a resulting recommendation. Some excellent answers covered both aspects of the question scenario but unfortunately came to no clear recommendation with which to conclude their decision.

Question 5 looked at correcting errors and how to resolve them using a suspense account. This proved to be challenging area for candidates.

Comments on specific questions

Question 1

- (a) The question focused upon business documentation and books of prime entry in which the source documents would be listed. Most candidates recognised the appropriate book of prime entry but found documents required for banking cash sales and recording credit transfers such as bank statements and paying-in slips for verification purposes as difficult.
- (b) This question required the posting of entries into a sales ledger account. It is important to recognise immediately which side of the business (either sales or purchase ledger) the account is located and then to apply double entry rules for the relevant postings. Stronger responses listed the date, details and amounts accurately. Weaker responses often opened with balances on the wrong side, discounts allowed calculated incorrectly and the final balance on the account often being incorrect due to inclusion of the cash sales figure of \$412.
- (c) This required candidates to identify the section of the statement of financial position where a sales ledger account balance would appear. The majority of answers were correct but where candidates took a wrong turn in **part (a)** an own figure mark could still be achieved.
- (d) This required a discussion of one advantage and one disadvantage of reducing the level of cash discount available to credit customers. This was very well answered with increased profits/cash

flows being regularly identified versus possible loss of customers. Weaker answers just referred to increased sales and expenses and did not consider the possibility that customers may choose not to take the reduced discount option.

- (e) The final part of this question considered the options of whether or not to form a limited company. Appropriate advantages and disadvantages were mentioned and this formed a sound basis upon which to go forward and make a recommendation. This style of question needs a clear recommendation and many candidates often omitted this aspect or left their answer as an academic discussion and did not receive the fifth mark.

There were some answers that confused limited and unlimited liability to sole traders and limited companies and this difference should be abundantly clear with the ability to discuss the benefits and drawbacks accordingly.

Question 2

- (a) BH Sports club is a non-trading organisation and the steps to produce financial statements required are specified clearly in the syllabus.

To produce the subscriptions account, the same technique is applied as used in control account preparation. Opening and closing subscriptions have to be entered correctly along with any receipts from both cash and cheques/direct transfers through the receipts and payments account. The balancing figure is then transferred to the income and expenditure account. This figure was often incorrectly identified as income and expenditure which cannot be applied to a non-trading organisation.

- (b) The second stage is to analyse the expenses and revenues generated from operating a cafe. This represents a distinct income stream for a club that is transferred as a separate figure into the final income and expenditure account. Individual entries for the cafe should not be made in **part (c)** and this was a very common error.
- (c) The income and expenditure account was consequently not well attempted, with adjustments for insurance being ignored and depreciation, when calculated, needed to identify specific non-current asset narratives such as sports hall or sports equipment. Members need to be aware if equipment requires replacing and possible funding implications for the future.
- (d)(i) Many candidates expressed incorrectly that the accumulated fund represented the capital of the organisation. There are no shares for a non-trading organisation, only excesses of income built up through subscriptions and donations beginning from when the club commenced.
- (ii) The majority of candidates could identify that a surplus would increase an accumulated fund but too often this comment was not accompanied by their own figure calculation from **part (c)**.

Question 3

- (a) This was a relatively easy introduction to limited company accounts. The cost of sales information was available and the only additional complication was to include carriage inwards as a cost that is necessary to bring it to its present location and therefore recorded within the cost of sales.
- (b) The calculation of the revised provision for doubtful debts is a standard adjustment required for the income statement. A common error was to omit a deduction of the irrecoverable debt of \$500 from the trade receivables and this resulted in the new provision being calculated incorrectly on \$80500. Another common error was to add the opening and closing provision together or to submit the closing provision to the income statement and this would be an error in principle. Only the difference between the opening and closing provision is taken to the income statement.
- (c) Information from **parts (a) and (b)** should have been fed into this answer to provide an income statement that also required a range of expenditure adjustments including accruals, prepayments and depreciation. The most common errors were confusing accruals and prepayments and omitting to adjust debenture interest with \$700 as an accrued expense.
- (d) The table here required candidates to indicate the effect that a range of transactions would have upon equity. This was assessing an awareness of the movements that are formally recorded in a

statement of changes in equity for a limited company. This was generally very well answered although the last two 'no effect' answers presented some problems for the weaker candidates.

Question 4

- (a) This was a straight forward calculation of profit that was answered correctly by most candidates.
- (b) This required the calculation of three standard ratios: profit margin, gross margin and return on capital employed. As the profit had been brought forward from **part (a)** the ratios were very often calculated correctly indicating regular practice and familiarity with this area of the syllabus.
- (c) The question required candidates to compare and produce comments on the performance of the sole trader over the two year period based on the ratios calculated in **part (b)**. Many candidates found this a difficult exercise and could only identify that profit had increased relative to the previous year or could only report that the key ratios had increased or decreased. It is critical to identify whether changes are improvements or deteriorations when compared to previous years. This will then lead to potential reasons for the changes, for example a reduced profit margin due to an increase in/or poor control of expenses. It is important to link the potential reasons to specific ratios within the written answer, as a list of reasons attached at the end does not indicate the implication behind the ratios has been fully understood by the candidate.
- (d) The scenario posed in this question required a decision whether to invest further owner funds or obtain a two-year bank loan necessary in order to reduce a decreasing bank balance. Advantages and disadvantages were regularly identified and comments made such as interest payable on loans but not on private funds contributed both gained marks. Some candidates however indicated that endless funds could be borrowed from a bank, this was too simplistic and highlights the need for calculating key ratios and producing financial statements before a bank would consider advancing a loan. Strong responses demonstrated familiarity with terms such as security and collateral may be required in order to secure a loan and recognised this as a potential disadvantage. Some candidates did not gain the final mark as they omitted to make a clear recommendation.
- (e) This was a popular question and the mark was readily obtained. A common answer for the interested party was the bank along with the government to ensure that taxes were assessed and paid. The question did exclude any answers that referred to employees, even so managers were a common incorrect answer.

Question 5

- (a) The question required the preparation of a suspense account after considering seven errors following the extraction of a trial balance. For many candidates this represented a real challenge.

Candidates should understand that not all errors will require a posting into the suspense account. Only single entries or differing amounts in the double entry will cause an imbalance in the trial balance. Consequently only errors 1, 4, 5 and 7 needed an entry to be passed through the suspense account that would enable the difference of \$200 to be eliminated. Many candidates were unfamiliar with this procedure or included every error within the suspense account.
- (b) Error 2 was quickly identified correctly. However, only few candidates identified error 4 correctly and allowances were made for an incorrect figure in one account.
- (c) Candidates performed well on this. Errors 5 and 7 presented problems for the weaker candidates.
- (d) The final part of this question required a consideration on whether Razia should sell on cash terms only. Candidates could often provide two good advantages such as the receipt of cash immediately and no irrecoverable bad debts but this was not matched by disadvantages with only one being popular such as the loss of customers/sales reduction.

As with all the recommendation questions, a balanced answer is required so that one advantage and one disadvantage must be identified in order to gain the recommendation mark. The recommendation point must also be clearly evident from the answer.

ACCOUNTING

Paper 7707/23 Paper 23

Key messages

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

It is extremely important that candidates write their answers clearly.

Many candidates did show calculations were appropriate. Showing calculations ensures that some of the available marks may be earned even though the final answer is not correct.

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. It is 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 scripts are being marked. Candidates should also indicate which version is to be marked by crossing out the version which should not be considered.

Candidates should avoid the use of inappropriate abbreviations such as 'b/d' for 'balance' in ledger accounts and 'COGS' for 'cost of goods sold'.

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

General comments

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.

All the day-to-day records of a business are based on double entry bookkeeping. Those candidates who had a good knowledge of double entry were able to apply this to various scenarios. In ledger accounts attention must be given to the words in the details column and the dates as well as the figures.

Candidates are expected to know the correct form of presentation for year-end financial statements. Those candidates who understood format required for an income statement and a statement of financial position were able to apply this knowledge to the various scenarios.

The papers contained three questions where candidates were required to discuss a given scenario and recommend a course of action. Candidates are advised to think very carefully before attempting this type of question. Many candidates appear to have made a list of the points they wanted to make and these candidates were then able to construct a coherent response. The responses provided by other candidates tended to be vague and repetitive and often confused. In each case the question required candidates to provide advice to a trader on a particular course of action, supported by two advantages and two disadvantages. Good answers set out the advantages, the disadvantages and then provided a clear recommendation.

Comments on specific questions

Question 1

- (a) Candidates were required to prepare two journal entries. Many candidates were able to earn most of the available marks. Those candidates with a poor grasp of double entry were only able to produce a partially correct answer. Common errors included

- reversal of entries
- debiting purchases instead of the asset account
- crediting the bank rather than the credit supplier
- crediting the owner of the business rather than the customer.

- (b) Using data provided candidates were required to prepare ledger accounts for a non-current asset, provision for depreciation and disposal of a non-current asset. Many candidates found this very difficult and there were many scripts where the cost and the depreciation items were duplicated in two or more accounts. Additional practice on this topic would have benefitted many candidates.

It is important to remember that only entries relating to cost are entered in the non-current asset account. In this particular question the entries in the asset account were the cost of the fixtures held at the start of the year, the fixtures purchased during the year and the cost price of the fixtures disposed of. Common errors were to include the proceeds of sale of the fixtures and the provision for depreciation.

The provision for depreciation account should have started with an opening credit balance. The depreciation relating to fixtures disposed of should have been debited to remove it from the account. This amounted to \$285 (10 per cent \$1500 in year 1 and 10 per cent $\times$ (\$1500 – \$150) in year 2). The depreciation for the year on the assets held at the end of the year should have been credited.

The disposal account compares the net book value of the asset (the original cost appearing on the debit side and the depreciation to date on the credit side) with the proceeds of sale. The difference was a loss on sale which had to be transferred to the income statement.

In all three accounts attention to detail was necessary to ensure that the entries were correctly dated and the words in the details column were the name of the account in which the double entry would be made.

- (c) Candidates were asked to advise a trader whether or not she should enter into a partnership. Those candidates who clearly stated the required number of advantages and disadvantages and then made a recommendation were able to earn high marks. Some candidates did not offer a definite recommendation. Other candidates incorrectly stated that sharing profits is an advantage and sharing losses is a disadvantage. Other candidates incorrectly listed 'sharing profits and losses' as both an advantage and a disadvantage.

Question 2

- (a) Using data provided, candidates were required to calculate the corrected balance of the bank column of a cash book. Many candidates did not appreciate that the opening balance was overdrawn and consequently deducted the three adjustments instead of adding them. The unpresented cheques and the uncredited deposits would have already been recorded in the cash book so no further entry was necessary.
- (b) A bank reconciliation statement had to be prepared to identify the bank statement balance. The cash book balance to appear in this statement should have been the one answer to **Part (a)**. Many candidates incorrectly showed this as a positive balance even though they had calculated an overdraft in **Part (a)**. A number of candidates incorrectly used the cash book balance before the adjustments were made. In addition to the cash book balance and the bank statement balance only the unpresented cheques and the uncredited deposits should have been included. There was some doubt about these two items should be treated.

When preparing a reconciliation statement it is important to remember that this is a statement not a ledger account and also to use the correct terminology.

- (c) Candidates were informed that a trader's bank balance had decreased significantly and were asked to comment on two proposals.

The first proposal was whether to hire non-current assets instead of purchasing them. The more able candidates mentioned the effect on liquidity and some even mentioned that the assets would never be owned by the trader and there would be no depreciation. Other answers were very vague. For example, stating that the expenses would reduce was regarded as insufficient.

The second proposal was to delay paying credit suppliers. Many candidates correctly stated that the suppliers may charge interest or refuse further supplies, and that the money could be used for other purposes.

- (d) Using data provided, candidates were required to prepare a combined rent and rates account. Whilst there were some good responses, a large number of candidates found this question difficult. Many candidates would have benefitted from additional practice on this topic.

Attention should be paid to the details and dates as well as the figures. Frequently the payments were described as 'rent' or 'rates' when the correct wording should have been 'bank'.

It was possible to calculate that, at the end of the financial year, one month's rent was accrued and two months' rates were prepaid. These values should have been inserted as the closing balances and brought down to the following financial year. It was then possible to calculate the amounts to be transferred to the income statement representing the expenses for the year.

- (e) Using either the given information or the account prepared in **Part (a)** candidates were required to state the section of the statement of financial position in which the account balances would appear. Whilst there were many correct responses, some candidates provided unacceptable answers such as 'other receivables'/'other payables', 'non-current assets'/'non-current liabilities' or 'income'/'expense'. A number of candidates made comments which were completely un-related to the question.
- (f) Candidates were asked to name a principle applied in recording rent and rates in the financial statements and to state how that principle would be applied.

Many candidates correctly selected matching or prudence: other candidates named an un-related principle. Some explanations were perfectly acceptable. Other explanations were factually correct but, because they did not relate to the principle named in **Part (i)**, were not awarded a mark.

Question 3

- (a) An income statement for a sole trader had to be prepared. Applying the gross margin the 'missing' value of closing inventory had to be inserted. It was expected that the format of an income statement would be familiar to candidates: in the event a number of candidates were clearly unprepared for the topic and were unable to even attempt an answer.

The closing inventory could be ascertained by inserting the other items in the trading section and inserting the inventory as a missing figure.

Common errors included

- using inappropriate abbreviations such as COGS, GP and NP
- using payments to suppliers as the purchases for the year
- deducting cash drawings from the purchases
- incorrectly calculating the wages for the year and the rent for the year
- omitting depreciation for the year
- including extraneous items such as bank loan.

- (b) Candidates were asked to advise a trader whether or not he should maintain a double entry bookkeeping system. Once again, candidates offering the required number of advantages and disadvantages and making a recommendation were able to earn high marks. A number of

candidates did not provide a definite recommendation. Avoiding fraud and locating errors were popular advantages. Increase in wages costs and time-consuming were popular disadvantages. The weaker candidates often incorrectly referred to 'time-wasting'.

Question 4

- (a) Using information provided candidates were required to calculate the correct value of inventory. There were very few wholly correct answers. The inventory had been valued at \$26 300 which includes goods costing \$5200 which could only be sold for \$5000 after repairs costing \$600. The value of the inventory had to be reduced by \$800. A common incorrect answer was \$21 600.
- (b) Candidates were required to calculate the correct profit for the year, using data provided and also the answer to **Part (a)**. There was a wide variation of marks. Some of the weaker candidates did to seem familiar with this type of question.

Common errors included

- not starting with the original profit for the year
 - making the adjustments on the inventory valuation rather than on the profit
 - making an adjustment for the whole of the inventory not just the amount of decrease
 - adding the prepaid insurance
 - omitting the provision for doubtful debts or deducting the whole of the new provision
 - avoidable arithmetic errors.
- (c) A statement of changes in equity had to be completed. This was prepared with varying degrees of success with some candidates earning good marks and others very low marks. The opening balances should have been taken from the list of balances on the previous page of the question papers. Many candidates incorrectly amended these figures for the events of the year. Other common errors were to include the original profit rather than the corrected profit and to include extraneous items such as debentures.
- (d) A statement of financial position of a limited company had to be prepared. It was expected that the format of such a statement would be familiar to candidates: in the event a number of candidates were clearly unprepared for the topic and were unable to even attempt an answer. Those candidates who had a good knowledge of financial statements were able to earn good marks.

Common errors included

- not dividing the assets and liabilities into their appropriate sections
- not inserting heading for the cost accumulated depreciation and net book value of non-current assets when displayed in columnar format
- not showing the provision for doubtful debts (correctly labelled) deducted from the trade receivables
- not including the insurance prepaid in the item for other receivables
- omitting the debentures or showing the interest rather than the amount of the loan
- not itemising the three items in the equity section
- attempting to show capital, plus profit, less drawings as for a sole trader.

Question 5

- (a) Candidates were required to complete a table to indicate the effect of four errors on the profit for the year and on the working capital. There was a wide range of marks, both the well-prepared candidates earning full marks.
- (b) Ratios for two similar businesses were provided and candidates were required to suggest two reasons for the difference in each ratio. A significant number of candidates provide factually correct statements which did not answer the question being asked so could not be awarded any marks. Instead of attempting to provide reasons for the difference in each ratio many candidates restricted their answer to saying which ratio was the highest and which the lowest. Other candidates incorrectly believed that the ratios were for the same business over two years and attempted to explain the reasons for the change in the ratios.

Those candidates with an understanding of the calculation of the ratios were able to apply that knowledge and suggest reasons why one ratio was higher than the other. In this type of question it

is important that candidates make it very clear the business to which they are referring. For example no marks could be awarded for a statement 'He had more current assets' as there is no indication whether the comment relates to Aziz or to Nazim.

- (c) This required candidates to suggest one reason why one of the traders had a lower rate of inventory turnover. Once again, it was important that the answer clearly stated the name of the trader to which the comment referred.
- (d) Candidates were asked to advise a trader whether or not he should introduce a strict credit control policy. Once again, candidates offering the required number of advantages and disadvantages and making a recommendation were able to earn high marks. A number of candidates did not provide a definite recommendation. The possibility of being paid earlier and reducing irrecoverable debts were popular advantages (though some candidates incorrectly stated that the trader would definitely be paid earlier). Damaging the relationship with credit customers and losing credit customers were popular disadvantages.