

ACCOUNTING

Paper 9706/12
Multiple Choice

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

Key messages

Candidates found questions on reduction in provision for doubtful debts, cost behaviour as a result of a change in the level of activity and valuing inventory using marginal costing challenging.

General comments

The mean mark on the paper was 14. This is the first time this was paper was taken at a March sitting. Statistics indicate that only four questions proved difficult: **7, 12, 25 and 26**. These have been discussed below.

Comments on specific questions

Question 7

The question was based on a reduction in the provision for doubtful debts. Some candidates incorrectly thought that it is the reduction in the provision that should be deducted from the trade receivables in the statement of financial position. This is *not* the case. It is the **full** amount of the provision which is deducted.

Question 12

Candidates could have approached the given data as: Opening capital (\$152 000) + Capital introduced (\$14 000) + Profit for the year (required answer) – Drawings (\$7900) = Closing capital (\$184 000). The only figure which would have worked as profit for the year was \$25 900, the key of **A**.

Question 25

Many candidates found this question challenging. The unit cost increases as a result of the fixed element when activity decreases, as there are fewer units to spread this cost over. The level of increase, however, will be lower than level of overall decrease in activity as a result of the variable element. Thus the key was **D**.

Question 26

Candidates were required to determine the cost of goods sold. A total of 3600 watches were sold, therefore the cost of goods sold was $3600 \times \$185$ (direct material + labour costs + fixed manufacturing overheads) = \$666 000, the key **B**.

ACCOUNTING

Paper 9706/22 AS Level Structured Questions

Key messages

Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings.

In written questions, candidates should make sure that they provide sufficient development to their answers. One or two word answers will seldom suffice.

General comments

The presentation of answers in the financial accounting questions needs to be improved. Candidates must practice the preparation of income statements and statements of financial position in order to produce acceptable statements that will gain full marks. It was very noticeable how few candidates were able to present limited company financial statements in the accepted format.

Comments on specific questions

Question 1

The question concerned a limited company. Candidates were required to prepare an income statement and a statement of financial position after accounting for various adjustments. The latter parts of the question concentrated on working capital and the return on capital employed.

- (a) This part required the preparation of an income statement. Overall candidates did not perform well on this part. Very few candidates appreciated that the expenses in a limited company income statement are analysed into administration expenses and distribution costs. The majority of candidates were able to correctly calculate the gross profit.
- (b) Candidates did not prepare the statement of financial position satisfactorily. A surprisingly large number of candidates appeared to have little idea of the structure of a limited company statement of financial position. Common errors were to show the provision for doubtful debts as a current liability, to show the debentures as part of equity and not adjusting the retained earnings for the profit for the year.
- (c) Most candidates gave a good explanation of the importance to a business of the current ratio, although less well prepared candidates simply stated the formula of the current ratio.
- (d)(i) Most candidates were able to state the correct effect on working capital of repaying the debentures.
 - (ii) The effect on the return on capital employed proved more challenging. Clearly, as capital employed falls, then the return on capital employed will rise.

- (e) While credit was given for advice to either repay or not repay the debentures depending on the reasons given, it was clear from the circumstances that the best advice was to not repay. Few candidates referred to the relatively low interest rate of the debentures and only the well prepared candidates discussed the fact that repayment would seriously weaken the company's cash position.

Question 2

The second question assessed candidates' knowledge of partnership accounts.

- (a) The majority of candidates correctly calculated the profit on revaluation of the non-current assets and the inventory. A significant number of candidates did not show the correct allocation of this profit. Some simply entered the profit in full as one figure, while others allocated it over all three candidates rather than just the two original partners.
- (b) Preparation of the partners' capital accounts was generally well done. Less well prepared candidates appeared to not appreciate the distinction between capital accounts and current accounts and therefore included drawings, interest on capital and drawings and the shares of profit.
- (c) (i) Most candidates provided good responses to the advantages of interest on capital.
- (ii) The advantage of interest on drawings was less well done. Many candidates produced virtually identical advantages for both the partnership and the partners themselves. The part as regards the partnership was the fact that excessive drawings could cause cash flow problems and few candidates recognised this.
- (d) (i) and (ii) Responses on the effect of the partnership to the existing two partners were not well done. Candidates needed to show awareness that one partner had higher capital invested than the other and one had higher drawings than the other. Many responses were simply not focussed sufficient on the relevant information.

Question 3

This question concerned the double entry on the issue of shares and supplementary questions on share premium account and bonus issues. Overall candidates did not perform well on this question.

- (a) Only the well prepared candidates seemed to know the journal entries involved in the issue of shares, the payment of a dividend and the issue of bonus shares.
- (b) This task required candidates to show the movement in the share premium account as a result of the entries in part (a). As a result of the poor quality of responses in part (a), candidates' performance was generally not satisfactory.
- (c) Candidates did not show a good understanding of the capital structure of limited companies or the reasons why bonus shares may be issued. The most common misconceptions were that the issue was to either keep shareholders happy or to encourage other investment. A number of candidates suggested that the share price would increase, which would likely not be the result.
- (d) Most of the candidates were able to offer at least two valid differences between ordinary and preference shares.

Question 4

The final question concentrated on cost and management accounting. Parts of this question on profit volume were well done, but less well prepared candidate did not answer this question well.

- (a) (i) The majority of candidates correctly identified point A as the breakeven point.
- (ii) Significantly fewer candidates recognised point B as the fixed costs.

- (b) Very few candidates gained the mark for stating what is meant by P/V ratio. Those who offered any response at all stated that it was a measure of how much profit is earned from each \$1 of sales. It should be how much contribution is earned from each \$1 of sales.
- (c) Responses to this part were very mixed. The key benefit that it can forecast profits at various levels of output was frequently missed. The valid drawbacks were usually those that also apply to breakeven analysis.
- (d) (i) and (ii) Most candidates were able to correctly calculate the total contribution for each product and the resultant profit or loss.
- (e) When asked to discuss whether production of all three products should be continued, the majority of candidates stated that they should not, due to the one loss making product. In fact the question required a discussion around the fact that the fixed costs would still have to be paid if the loss making product was discontinued. As all three products were making a positive contribution, production of all three should continue.
- (f) Contribution on each order was generally quite well done.
- (g) Based on candidates own responses to the previous part, most were able to gain at least some marks for advising whether the orders should be accepted.
- (h) There were some good, well-constructed responses when asked to explain two reasons why a business needs to plan for the future.

ACCOUNTING

Paper 9706/32 A Level Structured Questions
--

General comments

Most candidates were able to access the paper and attempt each question. The paper illustrated as a whole how important it is to show workings and to relate answers to the question requirement. There were no apparent timing issues or misunderstanding of the rubric of the paper. Candidates should however work on improving their written answers by arguing both sides of a question before making a decision. Full analysis of results is required especially where two businesses or options are available.

Comments on specific questions

Question 1

This question identified the importance of showing all workings; especially for the calculations of depreciation and the provision for unrealised profit, and knowing the correct layout for a manufacturing account. Some candidates did not correctly identify the prime cost, the profit from operations and the transfer to the income statement.

Part (a) was well answered by most candidates. The main problem areas were leaving out the factory profit or deducting the overheads from prime cost. A few candidates started with revenue or non-current assets.

Part (b) was also well answered by most candidates. Common errors were to omit the factory profit and the change in the provision for unrealised profit, and to include indirect materials and/or indirect wages in (b) rather than (a).

Answers to part (c) were variable. Some candidates thought inventory is not shown in the statement of financial position but only in the income statement, whereas others thought only inventory of raw materials is shown.

Part (d) was generally not well done. Many candidates considered that mark-up should not be added because it reduced profits, not realising that in fact it is debited and credited and therefore cancels itself out. Most candidates did not give a balanced argument and only gave one side to support their decision.

Question 2

This question is new to the syllabus and illustrated the importance of presenting accounts correctly and supporting any decision with financial data.

In parts (a)(i) and (ii) were either correct or candidates did not know how to use the figures within the question, especially to calculate the import duties. Part (b) was attempted well by only a few candidates. Common errors included referring to the balance carried down of \$3050 as stock or inventory. It was also important that the accounts were shown as still open and a balance brought down in each case.

Part (c) was done well. Most candidates gave a recommendation as to whether Chin should change his delivery patterns. A few candidates explained why they had come to this decision but few backed up their comments with calculations, for example the amount of money saved and the increase in profit.

Question 3

Part **(a)** had variable responses. The main errors were to include the debentures and current liabilities within the equity section and to not identify the share premium on the ordinary share issue. Very few candidates understood that retained earnings figure was a balancing figure working down from the total assets figure in the question paper and a few recorded it as retained profit for the year. Few candidates realised that total equity and liabilities would be equal to the total assets of \$582 000 as stated in the question.

Part **(b)(i)–(iii)** were not generally well answered. Common errors were to not adjust profit after tax for the preference dividend in part **(i)**, to not exclude the current liabilities from the capital employed figure in part **(ii)** and part **(iii)**.

Parts **(c)** and **(d)** were answered better, although many candidates just repeated the ratios without making comparisons. Candidates often were not clear what the dividend cover meant. In part **(d)** a final recommendation was required.

Question 4

This question illustrated the importance of showing full workings especially in parts **(a)** and **(b)**.

In part **(a)** a few candidates prepared two separate statements of financial position. The most common error was to not adjust the opening capital. Those candidates who did adjust tended to prepare a revaluation account and split the profit in the profit sharing ratio rather than link each revaluation to the partner.

Part **(b)** was generally answered much better than **(a)**, although a few candidates subtracted interest on drawings.

Part **(c)** was answered well by most candidates.

Part **(d)** was answered well, although a few candidates misunderstood what was required and discussed whether Fernando and Gurdip had been correct to form a partnership. A few candidates did not give a final piece of advice. Some candidates only focused on the benefits rather than give a balanced argument.

Question 5

Part **(a)** was answered well by some candidates. Some candidates did not know how to apportion the production overheads while others split it equally between the two products.

In part **(b)** some candidates recalculated the unit production cost rather than use the figures from **(a)** but correctly used the mark-up of 50%.

Part **(c)** was well answered by candidates who understood activity based costing.

In part **(d)** there were some unrealistic figures as candidates did not seem to appreciate that when adding the split of the total of overheads it should come back to the original figure of \$540 000.

In part **(e)** a common error was to ignore the direct material and labour costs completely and to base total costs purely on overheads. As a result candidates ended up with two selling prices which were both going down and could not come up with the correct answer about cross subsidization in part **(g)**.

In part **(f)** most candidates mentioned demand and market price, but very few included profit.

Question 6

Parts **(a)** and **(b)** were done quite well. In part **(a)** many candidates achieved the correct profit figure but a few omitted the fixed overheads. In part **(b)** many candidates knew why a flexed budget was prepared so like could be compared to like.

Part **(c)** was not completed as well. Although the majority of candidates had an idea on how to calculate the direct materials price and usage variances, very few knew how to calculate the fixed overhead expenditure or volume variance, which are new to the syllabus.

In part **(d)** the majority of candidates achieved some marks by correctly commenting on the causes of the adverse variances, although some stated that wages had increased rather than the rate, and lack of direction in the questions meant that answers lacked precision.

In part **(e)** was answered well, although many candidates gave two or more answers rather than developing any one single point as requested by the question.