

CONTENTS

| | |
|--|----------|
| ACCOUNTING | 2 |
| GCE Advanced Level and GCE Advanced Subsidiary Level..... | 2 |
| Paper 9706/01 Multiple Choice (Core)..... | 2 |
| Paper 9706/02 Paper 2 - Structured Questions (Core)..... | 3 |
| Paper 9706/03 Multiple Choice (Extension)..... | 4 |
| Paper 9706/04 Problem Solving (Extension)..... | 6 |

FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

ACCOUNTING

GCE Advanced Level and GCE Advanced Subsidiary Level

| |
|---------------|
| Paper 9706/01 |
|---------------|

| |
|------------------------|
| Multiple Choice (Core) |
|------------------------|

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

General comments

5937 candidates took this paper, which consisted of 30 questions. The mean score was 16.1 and the standard deviation was 5.3.

While the number of candidates increased by 31%, the results remained remarkably similar between the two sessions.

All questions were within the syllabus. Candidates found **Question 22** too easy and **Questions 18** and **28** too difficult.

Comments on specific questions

Question 11

41% of candidates selected **A** compared with 36% who selected the correct key **B**. Those who selected **A** failed to recognise that an item on the wrong side of an account causes an error of twice the original amount.

Question 12

27% correctly selected the key **A**, 27% selected **B** and 31% selected **C**. While this suggests that many candidates may have guessed the answer, it is more likely that candidates were confused by the credit balance in the cash book. Bank reconciliations are probably taught early in the order of topics and may receive insufficient attention. By the time candidates enter for the examination, they have largely forgotten the topic. Occasional revision of the topic is advisable.

Question 14

37% of responses correctly identified the key **C**. 22% selected **A** and 27% selected **D**. This shows an inadequate understanding of the realisation concept, which may need to be explained a little more fully to candidates.

Question 18

10% correctly identified **C** as the key while 69% selected **D**. The latter omitted to adjust the profit on the cost of goods manufactured by the increase in the provision for unrealised profit. The provision for unrealised profit on stock at 31 December 2001 was \$8000 ($\$40\,000 \times 0.2$). Closing stock of \$54 000 at 31 December 2002 includes unrealised profit of \$9000 ($\$54\,000 \times \frac{1}{6}$). The provision for unrealised profit must be increased by \$1000. The realised profit for the year ended 31 December 2002 is $(\$240\,000 \times 0.2) - \$1000 = \$47\,000$.

Question 24

The statistics suggest that most candidates guessed the answers. This in turn suggests that, although they may know how to calculate ratios, they lack a real understanding of the factors that affect them.

Question 28

29% of candidates correctly selected **D**. 51% based their response on actual recovery being determined by budgeted labour hours and selected **C**. Actual absorption depends upon actual labour hours worked. Overhead absorption continues to be misunderstood by the majority of candidates, which suggests that more needs to be done in the classroom to explain overhead recovery.

| |
|-----------------------------|
| <p>Paper 9706/02</p> |
|-----------------------------|

| |
|---|
| <p>Paper 2 - Structured Questions (Core)</p> |
|---|

General comments

There was a wide range of expertise with many candidates scoring very high marks yet a disappointing number gaining very few. In general, **Questions 1** and **2** were reasonably well completed by the majority whilst **Question 3** was attempted either very well or very badly, which suggested that some had not studied the topic or had spent little time on it. The discursive elements of the paper were generally well addressed. Judging by the number of scripts which were completed, there seemed to be little problem with time.

Comments on specific questions**Section A****Question 1**

- (a) Many scored full marks here, but about 20% calculated the accumulated fund at the end of 2002 rather than at the beginning, which suggests that the question was not properly read.
- (b) Despite the clear instruction that parts of the wages, electricity and rent were to be charged to the café, a number of candidates omitted these from this section. This type of instruction has been used frequently in the past, and should have caused no problem.
- (c) Generally completed reasonably well, though a few candidates using the horizontal format placed the Income on the debit side.
- (d) Again, this caused few problems.
- (e) For the most part candidates handled the theory well.

Question 2

- (a) Those who knew how to prepare a dissolution account had few problems.
- (b) Despite previous instructions, a few candidates misinterpreted the expression "columnar form." The layout should have had six columns, as follows:

| | | | | | |
|---------|--------|----------|---------|--------|----------|
| Dr | | | | | Cr |
| Details | Dougal | Florence | Details | Dougal | Florence |
| | \$ | \$ | | \$ | \$ |

- (c) As for (b).
- (d) Few problems.
- (e) There were a few misconceptions here, and some answers might have been expanded. For example, "discord or dispute between partners" needs further explanation – disputes about what? Do boards of directors not have disputes? And it has to be pointed out that it is not necessarily easy for a limited company to raise capital – there is no guarantee that people will wish to buy shares. Also economy of scale – many partnerships are on a very large scale and many limited companies on a very small scale.

Question 3

- (a) The majority of candidates completed this part successfully, although a few allocated maintenance before canteen, despite having been given clear instructions to the contrary. Some included direct labour and materials and obviously did not fully understand the meaning of "overheads". A small number appeared not to have studied the topic and completely mishandled it.
- (b) About half of the candidates understood what was required here, but many divided the overheads by figures based on the cost per unit or the number of hours taken.
- (c) Once more about half of the candidates understood the difference between labour intensive and capital intensive.
- (d) Very mixed answers here, with many candidates supplying only labour and material costs.

Paper 9706/03**Multiple Choice (Extension)**

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

General comments

5127 candidates took this paper. The mean score fell to 12.7 (November 2002:14.5) and the standard deviation was 4.6. While the number of candidates increased by 13%, the results were less encouraging.

All items were within the syllabus.

Questions 2, 4, 5, 8, 11, 14, 16 and 19 proved too difficult; less than 25% of candidates answered these correctly.

Question 10 proved to be faulty.

Comments on specific questions**Question 2**

Only 19% of candidates selected the key **A**, probably because the term 'capital commitments' was not generally well known and understood.

Question 4

24% selected the key **B**, 36% selected **C** and 34% selected **D**. This seems to indicate there was much uncertainty about cash flows and many responses were guesses.

Question 5

26% selected the key **D**. 44% selected **A**, although the question stated that the company wished to maintain maximum distributable profits. Candidates either did not read the question carefully or did not recognise that the revaluation reserve and share premium account, being capital reserves, were not distributable.

Question 8

Only 16% selected the key **C**. 31% selected **A** and 32% selected **B**. \$72 000 of the purchase price was satisfied by the issue of debentures at a discount of 10%. The par value of the debentures was therefore \$80 000 ($\$72\,000 \times \frac{10}{9}$).

Question 10

This item was faulty. Since the paper was printed, a new requirement to disclose directors' remuneration in the directors' report was introduced. As a result, the item contained two keys.

Question 11

Statistics show that candidates were guessing the key because they were not familiar with the need for companies to show details about continuing, discontinued and acquired operations in Profit and Loss Accounts.

Question 14

21% selected **A**, 27% selected **B** and 33% selected **C**. These statistics suggest that candidates were guessing.

Question 16

The distribution of the responses over the options again suggested that candidates were guessing.

Question 19

Only 24% of candidates selected the key **D**. 28% overlooked the material transferred from process 1 and selected **B**. 35% excluded all overheads from work-in-progress and selected **C**. This demonstrates a weakness on the part of candidates to calculate the cost of completed work and work-in-progress in process accounts. The topic will repay additional attention being given to these calculations.

Paper 9706/04
Problem Solving (Extension)

General comments

The percentage of candidates achieving good results was in line with the results for November 2002, but the paper discriminated well between abilities and there was a wide spread of achievement levels. The papers for the two sessions were of comparable difficulty and all the questions set in this paper were on the syllabus. There was evidence that many candidates had been less well prepared for the examination than in the previous year and this was borne out by the responses, or absence of responses in many cases, to **Questions 1** and **3** in particular.

Candidates still score poorly in discursive type questions indicating that these receive inadequate attention before the examination.

Question 1

Some candidates responded to this question very creditably and deserved good marks but, on the whole, the answers were below the standard expected. It was a straight forward accounting ratios test involving the preparation of extracts from the Profit and Loss Accounts of two companies with comparisons of, and comments on, performance. The disappointing result arose from the inability of so many candidates to meet the first assessment objective of demonstrating knowledge and understanding of the topic. The weaknesses are analysed in more detail below and will repay careful study and some concentration on improved preparation of candidates for ratio analysis.

Question 2

This question was generally answered the best of the three, even by candidates who were quite weak on the other two questions. Unfortunately, it contained a rare printing error that may have caused some candidates difficulty, but care was taken in the marking to ensure that they were generously compensated. However, the greater majority of candidates either did not notice the error, or used their discretion and ignored it.

Question 3

Most candidates were able to score useful marks on part **(a)** and the most common errors receive detailed attention below. Parts **(b)** and **(c)**, focusing on sensitivity analysis, proved more difficult.

Comments on specific questions

Question 1

- (a)** Some of the errors that occurred in the preparation of the Profit and Loss Accounts were very surprising in an A Level paper. They included:
- the inclusion of share capital and debentures in the accounts
 - debenture interest and appropriations of profit being credited in the accounts (i.e. added to operating profit)
 - incorrect calculation of ordinary dividends
 - omission of the ordinary dividends
 - the balances, after appropriations, being described as net profit instead of as retained profit.

- (b) Calculation of the financial ratios revealed the extent of the weakness of so many candidates. They did not seem to have been prepared adequately for Stock Exchange ratios. Some candidates could not even attempt this part. The major weaknesses, which cost valuable marks, were:
- the use of incorrect models
 - poor arithmetic
 - failure to state the ratios correctly as percentages, amounts in \$s or cents, nos. of times, or as true ratios. The latter were often stated the wrong way round (e.g. PER as 1:5.16) or without the right hand term shown as unity (e.g. PER as 160:31).
 - earnings per share were frequently calculated before deducting interest and/or preference dividend
 - price earnings ratio was commonly miscalculated as earnings to price ratio.
- (c) Many candidates did little more than repeat the ratios they had calculated in (b) and so added nothing to their answer; no new marks could be awarded in those cases. Contributions to this part were generally limited to stating that the ratios of Foggy Ltd were better than those of Compo Ltd, or vice versa. The answers were not developed to justify the statements. Two erroneous comments concerning interest cover were:
- if a company makes a loss, or the interest cover is insufficient, the company will not be able to pay the interest. Candidates confuse profit with liquidity. Interest on loans must be paid whether the business makes a profit or loss, but failure to pay interest may occur if there is a cash deficiency
 - a high interest cover enables a company to pay its interest more times, or sooner.
- Long answers were given in generalised terms rather than being related specifically to Foggy Ltd and Compo Ltd.
- (d) Most candidates identified ratios that may be used to assess business performance rather than the ways in which the ratios may be used. Isolated ratios are of little use unless they can be compared with other ratios, such as those of previous years or of other similar companies. Marks were awarded for references to trend analysis and inter-firm comparison.
- (e) Few candidates could name more than one item that should be included in a directors' report. Many answers mentioned documents such as Profit and Loss Account, Balance Sheet and cash flow statement.

Question 2

- (a) A substantial proportion of candidates omitted to take depreciation into account when calculating average annual profit. There was widespread confusion between 'cash flow' and 'profit'. Most candidates added the disposal proceeds to, instead of deducting them from, the initial costs of the machines to calculate average investment.
- (b) All too many candidates calculated the payback periods on gross receipts instead of net receipts.
- (c) The commonest fault was to omit the scrap value receivable in year 4.
- (d) Most candidates were unaware that Internal Rate of Return can be calculated from two positive net present values. The result is not quite as accurate as it would be if one of the NPVs was negative but the Examiner is well aware of that fact and accepts it. There is no need to calculate new discounting factors for rates which have not been given in the question. All that is required is a small adjustment to the formula: difference in rates $\times \frac{\text{higher positive NPV}}{\text{higher positive NPV} - \text{lower positive NPV}}$.
- A number of candidates calculated the NPV of machine B on 20% only. They should have been aware that the NPVs of two or more options can only be compared if they are calculated on the same basis.
- (e) This was answered well in most cases.
- (f) Clegg required the Internal Rate of Return to indicate whether the machine he selected would dilute or enhance the overall profitability of his business. Very few candidates understood this.

Question 3

- (a) Candidates in general succeeded in gaining most of the marks available for the Balance Sheet. Too many candidates wasted much valuable time showing workings to close the partnership books when these were not required. The main errors were:
- Balance Sheets included only the assets and liabilities taken over from the partnership by Porridge Ltd.
 - Goodwill was either omitted or incorrectly calculated.
 - Candidates who assumed that Porridge Ltd did not acquire the partnership bank account calculated the bank balance as an overdraft. The question did not exclude the bank account from the assets taken over but as, in practice, the company would not normally have acquired it, the overdraft was allowed and awarded full marks. However, some candidates showed the overdraft as a negative current asset, which was not acceptable.
 - The convertible loan stock was shown as a current liability or in the share capital and reserves.
 - Share premium was credited to the Ordinary Share Capital account.
 - The premium on the redemption of the 10 per cent debentures in Porridge Ltd was credited to the Debenture Redemption Reserve.
- (b)(c) These revealed a considerable weakness in candidates' ability to calculate the effect of changes in turnover on net profit. The approach should have been to calculate (i) the amount of Porridge Ltd's investment in the partnership, (ii) the contribution required, and (iii) the C/S ratio. Most responses lacked any sign of a logical approach to the task and failed to explain the workings clearly.
- (d)(e) Candidates' understanding of the advantages of convertible loan stock was being tested. Many of the responses were weak and although advising Korne to convert his stock into shares, could not state the reason clearly. Most responses failed to quantify the increases in the company's ordinary share capital and Share Premium account.