

# ACCOUNTING

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<p><b>Paper 9706/01</b> <b>Multiple Choice</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	16	<b>D</b>
2	<b>B</b>	17	<b>A</b>
3	<b>B</b>	18	<b>B</b>
4	<b>A</b>	19	<b>C</b>
5	<b>D</b>	20	<b>C</b>
6	<b>B</b>	21	<b>D</b>
7	<b>B</b>	22	<b>D</b>
8	<b>C</b>	23	<b>D</b>
9	<b>D</b>	24	<b>C</b>
10	<b>C</b>	25	<b>D</b>
11	<b>C</b>	26	<b>D</b>
12	<b>C</b>	27	<b>C</b>
13	<b>B</b>	28	<b>D</b>
14	<b>D</b>	29	<b>A</b>
15	<b>A</b>	30	<b>C</b>

## General comments

6700 candidates sat this paper and the results show a normal distribution. The mean and median were around 16 marks and the standard deviation was just over 5 marks. This profile is very similar to the results of the November 2005 and 2004 examinations.

Because not all of the questions are of equal difficulty, there is no 'standard' time for answering a question and there was no evidence of candidates being short of time to complete the paper within the hour allowed. The first 10 questions proved straight-forward for most candidates, with the exception of **Question 8**. **Questions 11–20** contained some easy questions, namely **Questions 12, 14, 15** and **18**. **Questions 28** and **29** also proved fairly easy.

Candidates are advised to read the questions asked carefully. Many errors occur because candidates answer a similar question to the one asked of them.

## Comments on specific questions

**Question 8** – Candidates failed to read this question carefully, which asked for the purchase price of the stock and not the realisable value. 35% of candidates selected B, which is after the cash discount and not part of the purchase price.

**Question 11** – Candidates wanted to deduct \$124 charges from the bank statement, but such charges would already have been taken off on the bank statement before ascertaining the bank balance of \$8360.

**Question 16** – Candidates did not focus on calculating X's profit, which is the increase in net assets, \$30 000, plus drawings, \$16 000, less the value of the car when introduced, \$8000 = \$38 000.

**Question 22** – In this question candidates forgot that the bonus issue of shares (\$10 000) would be made from the share premium account.

**Question 25** – Candidates failed to calculate that the debtors ratio had worsened, but that the creditors ratio had improved.

# ACCOUNTING

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**Paper 9706/02**

**Structured Questions**

## General comments

Generally well done, with some centres achieving very high marks throughout. **Question 1** seemed to cause most problems, and **Question 2** earned students the highest marks. Discursive answers caused the most problems and were in general not very well done.

## Comments on specific questions

### Question 1

- (a) (i) Few candidates completed this correctly. In many cases no account was prepared and candidates presented their workings for Goodwill – this was not acceptable, as the question clearly asked for an account. A minority apportioned the \$10,000 between the existing partners then re-apportioned the \$20,000 according to the new ratio.
- (a) (ii) Profit on revaluation was wrongly apportioned to all three partners, and revaluation of Goodwill was often omitted.
- (a) (iii) This was rarely completed correctly as candidates often included current account balances. Also the Premises figure of \$196,000 was frequently entered as an opening balance on Devious' account. A minority of candidates still do not understand how to prepare accounts in columnar format.
- (a) (iv) The balance sheet gave candidates a good chance of recovering some of the marks lost in the earlier sections, and was almost without fail well done.
- (b) This was very poorly attempted by most candidates – very few made the point that persons joining a partnership may be expected to compensate the existing partners by either paying in cash to the business or bringing in other assets; and many candidates stated that retiring partners would leave their Goodwill in the business.

### Question 2

- (a) The opening balance sheet was generally well prepared, though the loan interest did cause some problems and a large minority decided that the bank balance was an overdraft. Showing "dr" after the bank figure in the list of balances was meant to help candidates, but not all candidates took note of this.
- (b) The ratios were generally well done, with the exception of the return on owner's capital employed and the return on total capital employed which were frequently mixed up. However, some centres did complete both correctly – candidates who had been taught to think rather than to learn by rote gained here. Many candidates lost marks by omitting the suffix in the ratios – merely stating "4.17" when the answer should be "4.17%" loses a mark, and each ratio should have had a suffix, be it ":1", "times", "days" or "%". Also the concept of two decimal places seems to be misunderstood by many – 1.766 would be 1.77, correct to two decimal places, whilst 1.764 would become 1.76.
- (c) Many candidates found this an easy problem to solve. However, a large minority began it well but then lost their way. Marks were, of course, awarded for each correctly attempted part, and many scored two out of a possible four.

- (d) Candidates either had or had not learnt or discussed the reasons for using ratios – for many, this was a weak topic.

**Question 3**

- (a) Generally this section was well done, though the description of margin of safety could have been better.
- (b) (i) The anticipated profit also earned marks for most candidates.
- (b) (ii) The break-even chart was less successfully completed. In order to gain all six marks the candidate was expected to give a title to the chart or to at least to one of the axes – the other marks could be gained by drawing correct lines and giving them, and the break-even point, titles.
- (c) There were many and varied answers given here – as with **Question 2(d)** this topic had been covered by some students and not by others.

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<b>Paper 9706/03</b>
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<b>Multiple Choice (Extension)</b>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>A</b>	16	<b>C</b>
2	<b>A</b>	17	<b>D</b>
3	<b>B</b>	18	<b>C</b>
4	<b>A</b>	19	<b>B</b>
5	<b>D</b>	20	<b>C</b>
6	<b>B</b>	21	<b>D</b>
7	<b>C</b>	22	<b>A</b>
8	<b>D</b>	23	<b>D</b>
9	<b>B</b>	24	<b>A</b>
10	<b>A</b>	25	<b>D</b>
11	<b>A</b>	26	<b>C</b>
12	<b>B</b>	27	<b>A</b>
13	<b>A</b>	28	<b>D</b>
14	<b>B</b>	29	<b>D</b>
15	<b>A</b>	30	<b>C</b>

## General comments

Nearly 5500 candidates sat the examination. The mean mark was 14 with a standard deviation of just over 5 marks. This was a little lower than the previous two years, indicating that the paper was slightly more difficult. The mark profile indicates that not many candidates attained over 20 marks.

A particular feature was several questions in which the correct answer was given only by a minority of candidates and where the distractors proved tempting. Usually this was because candidates answers were not thoroughly worked through and there was a tendency to guess at the answer.

Only **Questions 3** and **14** proved easy.

## Comments on specific questions

**Question 2** – Candidates forgot that only payments actually made during an accounting year are recorded in a cash flow statement.

**Question 10** – Not enough attention was paid to the dates in this question, which required amounts to be determined at 31 December 2006.

**Question 12** – Earnings per share is calculated using profits available to ordinary shareholders. Some candidates may have assumed that a preference dividend was provided for, but no mention of preference shares is made in the question.

**Question 18** – Distractor B attracted most attention, but averaging is required where loans are not repayable by instalments and fall due within five years of the balance sheet date.

**Question 22** – The answers indicate that guessing was a feature of this question which only a minority of candidates were able to work through.

**Question 23** – Many candidates ignored the 10% wastage factor and thus got 450 instead of 500 units.

# ACCOUNTING

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**Paper 9706/04**  
**Problem Solving (Extension)**

## General comments

It was pleasing to note that some aspects of candidates' work continue to improve. More candidates now show their workings and are labelling them clearly; this helps Examiners to identify and reward answers which are either presented in an unusual layout or have been corrupted in some way.

Layouts, too, have improved both in neatness and in content. Unfortunately there are still a small number of scripts which are very difficult to read.

It was disappointing to note that many candidates seemed to be inadequately prepared for the question on standard costing. There are still many candidates who do not read questions carefully enough. This was most evident in **Question 3** where a significant number of candidates prepared a full balance sheet. Whilst these candidates were not penalised, they did penalise themselves by taking much more time to answer this part of the question than was required. The vast majority of candidates are able to perform the arithmetical side of the paper accurately. However, surprisingly, a large number of candidates made an arithmetic error when calculating the gross profit figure in **Question 3 (a)**.

## Comments on specific questions

### Question 1

- (a) **Part (a)** was in the main well done. There were only a few candidates who did not present an account as their answer. A few candidates were unsure about which side of the account each figure should be entered on. Many candidates seemed to be unaware that the reduction in the value of the share capital should be exactly matched by a reduction in the value of the net assets. As a result these candidates had a balance on their capital reconstruction account.
- (b) Balance sheet layouts were in the main good. A good proportion of candidates scored highly. The problem area was the calculation of the cash and bank figures, with only the better candidates completing this task accurately. The share capital and reserves section of the balance sheet proved to be the most difficult part for all but the best candidates. Many candidates described both the ordinary shares and the preference shares as \$1 shares. Many candidates were unable to calculate the value of the bonus issue of ordinary shares given to the preference shareholders. \$48 000 and \$96 000 were the most usual incorrect answers.
- (c) This part was in the main well done. Some candidates did not read the question carefully enough and calculated the net asset value of the company at the two dates rather than that of each ordinary share. The most common error was the inclusion of the preference shares in the calculation of the net asset value thus using \$540 000 and \$475 000 as the numerator in their calculation.

Many candidates used the value of the ordinary shares as their denominator, failing to take into account that the issued share capital was made up of \$0.25 ordinary shares. Less good candidates dropped a mark by failing to indicate that the answer was in monetary terms.

- (d) This was generally well answered. The candidates who failed to score all three marks usually identified a factor that the court would take into consideration but then failed to develop their point.

## QUESTION 2

Generally, candidates found this a difficult question, with only a few gaining high marks. Responses were often weak and inaccurate. Indeed, given the magnitude of the figures supplied in the question a significant number of candidates gave variances that common sense would have indicated were wrong, for example, material and labour sub-variances in the hundreds of millions of dollars!

Some candidates calculated variances in units or hours or even percentages. Some candidates lost marks because they failed to indicate whether their variances were favourable or adverse.

Many candidates failed to flex their standard units for materials and standard hours for labour and so clearly were unable to calculate accurately the material usage variance and the labour efficiency variances.

Although many candidates had clearly learned the formulae to use in their calculations many seemed unable to understand them and as a consequence could not apply them to the information given. Many candidates did not read parts **(d)**, **(e)** and **(f)** of the question carefully enough and did not use the results from their own calculations to stimulate their responses.

- (a)** This part of the question was generally not very well done; very few candidates scored all six marks. Many candidates scored 2 marks for the total material variance, totalling their own material price variance and their own material usage variance. Some candidates only scored one mark out of the available two because they failed to indicate whether the variance was favourable or adverse. A few candidates used an incorrect description by confusing their price and usage variances.
- (b)** Surprisingly, some candidates who had trouble in calculating the material variances were able to accurately calculate the labour variances. However, in general, this part of the question was not well done. Once again, many candidates did not indicate whether the variance was adverse or favourable.
- (c)** Very few candidates were able to calculate accurately the actual labour hours used in the finishing department or the direct wage rate paid per hour. Most candidates once again failed to flex the budget. The majority of candidates were able to calculate the total labour variance by combining the two variances given in the question.
- (d)** There was a fair number of candidates who were able to score good marks for identifying reasons why the sub-variances had occurred. Less good candidates merely described the variance and did not offer an explanation as to the contributory factors causing the variance.

Many candidates produced a text-book answer which, unfortunately, was not applied to their own results from parts **(a)**, **(b)** and **(c)**. A significant number of candidates were confused by the terms favourable and adverse and implied that a favourable variance was a bad thing while an adverse variance was a good thing.

A frequent error was to state that labour efficiency was directly affected by wage rates.

- (e)** Only the very best candidates were able to explain how the factors leading to one sub-variance might influence the factors leading to another sub-variance. Once more, a significant number of candidates failed to use the results of their own calculations and discussed in general terms how one variance might be linked to another.
- (f)** This was in the main well done. Candidates identified the link with budgeting; the uses of standard costing in the preparation of quotes etc. and the use of standard costing in responsibility accounting. Less good candidates made reference to cash flows and cash flow statements.



**QUESTION 3**

- (a) This part of the question was in the main well done and many candidates were able to score eight to ten marks. Some candidates included the final preference dividend as \$10 000 whilst others did not label their answers correctly.
- (b) Although there were many good answers a significant number of candidates did not take enough care with the dates used in the question. This meant that some ratios for 2005 used data from answers to part (a) while later in their answer they used data for 2005 to calculate ratios labelled 2006.

The ratios were generally accurately calculated using own data from part (a), although some candidates were penalised for using an incorrect description e.g. price earnings ratio 11.09%. Interest cover and price earnings ratio seemed to be the ratios best understood. However, in calculating dividend cover and dividend yield, many candidates included preference dividends.

A significant minority of candidates produced only one set of figures and so this precluded them from commenting on the changes over the two years.

- (c) Responses were in the main disappointing. Many candidates merely repeated their results from part (b). Responses such as “interest cover has increased from 10 times to 11.25 times” are not worth a mark since that information is obvious from the results of the calculations in part (b). Candidates must comment on whether results show an improvement or a deterioration over the time period being reviewed. **Part (d)** was in the main well done. However, many candidates still showed preference shares in their balance sheet and many candidates did not create a capital redemption reserve.