

# ACCOUNTING

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

## Key messages

Candidates need to understand the link between entries in the journals and the posting of them to the relevant ledger accounts and also movement of funds between accounts with in the same section of the statement of financial position.

## General comments

A number of questions proved straightforward and were well attempted: **1, 3, 5, 6, 8, 14** and **16**. There was only one question where less than 30 per cent of candidates identified the correct key. This and some other questions have been here.

**Comments on specific questions**

**Question 9**

The most common response was that the error would only be revealed when Henry prepared a purchases ledger control account. From the given data Henry reversed the entry, but did enter the correct amount in the purchases journal. This would mean that he also posted a debit and credit of equal amount in the ledger. Thus the error would not be revealed when he prepared the purchases ledger control account or a trial balance. The only way it would have come to light was when Henry compared the supplier's account in his purchases ledger with the statement sent to him by the supplier.

**Question 18**

Although 40 per cent of candidates answered this correctly, it is worth discussing. The key was **C**. The next most popular response was B, where candidates assumed incorrectly that the transfer to the general reserve would reduce the total equity. This is not the case. All that has happened is that an amount has been taken off retained earnings and added on to the general reserve. Both of these are in the company's equity so the total equity will remain unchanged.

# ACCOUNTING

**Paper 9706/12**  
**Multiple Choice**

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

## **Key messages**

Candidates need more clarity on:

Reconciliation of sales and purchase ledgers with their respective control accounts and identifying how errors affect the balances of each.

Identification of items which appear only in the financial statement of a sole trader or partnership as opposed to a limited company.

Benefits and limitations of break-even analysis.

## **General comments**

More than 50% of candidates achieved a score of 15 or more correct answers. There were only four questions where more than 70 per cent of candidates identified the correct key: **2**, **12**, **16** and **25**. There were, four other questions which candidates found challenging and these are discussed here.

### **Comments on specific questions**

#### **Question 6**

Identifying difference between the control account and the respective sales or purchases ledger account is a topic where candidates need more clarity. In this case the cause of the imbalance was the errors identified in the question and the irrecoverable debt which was the item required for the answer. The calculation to arrive at the irrecoverable debt is:

$$\$36\,500 - (500 + 1500) = \$34\,500.$$

The difference between this figure and the sales ledger control balance of \$38 600 gives \$4100, which is the key.

#### **Question 13**

Both statements 1 and 2 are incorrect in respect of a partnership. Capital accounts on their own do not show the total amount owed to each partner. There may be a loan owing to one partner and there is also the current account balances to consider. Retained earnings are not recorded in the financial statements for a partnership. This only left statement 3 as the correct answer.

#### **Question 14**

Many candidates found this question challenging and opted for **B** as the answer. However, this ignored the loss on the car taken over by the retiring partner, who would have to take a share of that loss based on their profit sharing ratio. Thus, the correct key was **A**.

#### **Question 28**

Neither statements 1 and 2 are always limitations of marginal costing. Finance costs may be taken into account if they are directly linked to the decision. Variable costs per unit may also change at different levels of output if, say discount is given to a customer or received from a supplier. However, statement 3 is always a limitation as some costs may be semi variable and thus limit the effectiveness of using marginal costing.

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**Paper 9706/13**  
**Multiple Choice**

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

## **Key messages**

Candidates need more clarity on:

Calculation of movements in and general provisions for provision for irrecoverable debts.

## **General comments**

Around 77% of the total candidates achieved a correct score of 15 or more. The mean marks were 19.

There were two questions which, from the responses appeared to prove challenging to candidates. These are discussed below.

## **Comments on specific questions**

### **Question 9**

Candidates found this question challenging. The calculation was 60% of the debt owed by the customer (\$7750 · 60% = 4650) minus the change in the annual provision. The most common error was candidates only taking the irrecoverable debt and an adjustment to the closing trade receivables provision, the latter being adjusted in the wrong direction.

**Question 13**

The correct solution was the change in the opening and closing balances on the partners' current accounts ( $\$32\,000 - 18\,000 = 14\,000$ ) plus the drawings figure of  $\$22\,000$ , giving the key, **D**. The majority of candidates then adjusted this figure by the partners' salaries. This, however, would have been taken into account in the change in the current account balances. To adjust for it again was double counting.

# ACCOUNTING

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**Paper 9706/21**  
**Structured Questions**

## Key messages

Marks are awarded for the correct entry, this being a value with correct terminology/label. There were cases of values being presented with incorrect terminology/ labels and in some cases no supporting terminology.

Responses to narrative sections were varied and too frequently responses were limited to a couple of words and therefore there was insufficient development to achieve any marks.

## General comments

Frequently values in accounting statements are made up of various calculations with marks being awarded for the calculations leading to a final value. Some candidates omitted calculations and could not get credit presenting an incorrect final value only.

Some candidates were unable to deal with the relationship between mark-up and margin and these applications are frequently assessed. Candidates are also often asked to present an answer to a specific number of decimal places and marks are not awarded when this requirement is not followed.

## Comments on specific questions

### **Question 1**

This question focused on the preparation of an income statement and subsequent assessment of performance.

- (a) There were few completely correct answers for the revised value of inventory, although most candidates did make some correct entries. Some candidates responded with a trading account rather than a statement starting with opening inventory and then showing the required adjustments. There were also some cases of candidates not showing a label with values. Most candidates correctly subtracted the purchases, although there were a few who added. Frequently candidates were not able to use the 25 per cent mark-up to adjust sales values to cost. Many incorrectly deducted 25 per cent from sales values. Some candidates added adjustments rather than deducting, and vice versa. The customer returns were completely omitted by some candidates.
- (b) There were very few completely correct income statements presented. Within the trading section some candidates deducted returns inwards from revenue rather than from purchases and also included carriage outwards in this section. Most used their own figure from (a) for closing inventory, although some did not label it. Very few made the correct entry for profit on disposal, and many omitted to make any entry for this. Likewise, very few made the correct entry for interest payable with many entering interest for the loan only and omitting interest for the overdrawn bank account. The depreciation for fixtures and fittings was often correctly entered; however, some applied reducing balance rather than straight-line to depreciate motor vehicles. Whilst many did make the correct adjustments for amounts owing and prepaid some added rather than deducted the required adjustment, and vice versa. Frequently candidates omitted to take the bankrupt customer into account when making the adjustment for the provision of doubtful debts. Some candidates did not use the correct terminology for the final entry of profit for the year.
- (c) Whilst many candidates made a basic point, very few developed to explain how it related to sales ledger control accounts. For example, fraud was often stated as an advantage but no development

given on how this would be the case. Frequently time consuming was incorrectly given as a limitation. Only a few candidates specifically related to the type of error a sales ledger control account would not identify.

- (d) Very few candidates deducted interest payable from total expenses in the income statement to give operating expenses. Many entered the other operating expenses of \$4690 for the numerator. Some candidates omitted to multiply by 100 to arrive at a percentage. Frequently candidates did not follow the instruction to present to two decimal places. Whilst many candidates calculated an average inventory value, some used it as the denominator rather than the numerator when calculating the inventory turnover. Some candidates did not present their final answer rounded up in whole days.
- (e) Frequently candidates did not identify which business or person their comments related to. Some candidates defined the ratios rather than suggesting reasons for differences. Some candidates did correctly state Carla may have better control on operating expenses but did not develop as to how this could be the case.

### Question 2

This question focused on accounting for non-current assets.

- (a) There were very few completely correct responses for the double entry accounts required. Frequently account names were incomplete or incorrect. Many candidates listed accounts but did not match debits with credits.
- (b) Preparation of the provision for depreciation on motor vehicles account was very poorly done by the vast majority of candidates. Calculations for both the depreciation on the asset disposal and the charge for the year were frequently incorrect as were the labels used. Frequently candidates presented a final incorrect value only, with no supporting calculations which could have gained some marks. Some candidates reversed debit and credit entries.
- (c) This question was not answered well. Many candidates stated that profit would change but did not give an amount. Some candidates stated that profit would decrease by the cost of the asset rather than the depreciation for the period. Frequently candidates did not calculate the profit on the disposal of the motor vehicle.

### Question 3

This question related to share capital and the issue of shares.

- (a) Many candidates made valid comments about ordinary shares and preference shares independently, but did not pair up to relate to differences between the types of shares. Frequently when candidates did relate to the types of shares they omitted the word dividend when explaining a difference. Likewise, many candidates made valid comments about rights and bonus issues independently, but did not pair up to relate to differences between them. Few candidates responded with more than one difference and many presented three ways of stating that rights issues involve money and bonus issues are free.
- (b) This question was not answered well. Some candidates used incorrect labels for the accounts coupled with incorrect values. The debit entries for bank were often shown as credits. Few candidates calculated the correct values for ordinary share capital and share premium, in particular for the rights issue on 1 October.
- (c) Frequently advice was given on the demand for dividend, but without any supporting calculations. Many calculated the required dividend payment based on the original share quantity omitting to take the rights issue into account. Few candidates commented that there was sufficient cash, but insufficient earnings. Some stated that the dividend could be paid from retained earnings and did not make any reference to the availability of cash. There was also confusion between retained earnings and cash.



#### Question 4

The final question concentrated on cost and management accounting, in this case, absorption costing.

- (a) Few candidates referred to a number of identical items when explaining batch costing. Frequently responses related to a single unit or to different units. Many confused batch costing with process costing. Very few commented on how the cost per unit would be calculated.
- (b) This was well answered with many candidates correctly re-apportioning the service department costs to the production departments. Some candidates did not show the actual deductions from the canteen and stores.
- (c) There were many strong responses. Some weak responses did not indicate that the calculated rate was either per labour hour or per machine hour. A few used the allocated overheads given in the question as the numerator, rather than the amounts calculated in part (b).
- (d) Most candidates stated the correct amounts for direct materials and direct labour. However, calculation of production overheads was not so well done. Frequently candidates multiplied the assembly department overhead rate by 210 machine hours rather than the 500 hours shown under direct labour. The production overheads for the machinery department were frequently correctly shown. Most candidates correctly added the selling and distribution costs to arrive at a total cost. Many candidates however omitted to divide by the batch quantity to show the cost per unit.
- (e) Most candidates showed a cost for the order quantity of 75 units. Few however were able to use the profit margin of 60 per cent to arrive at the selling price for the order. Frequently candidates applied a 60 per cent mark-up.
- (f) Frequently candidates responded with a positive decision based on the benefit that would be gained by customer loyalty and further orders. Some did not make any reference to profit. There was some confusion with many referring to cash discount and the discount applying to all customers.
- (g) This was very well answered.
- (h) Many candidates achieved two marks for making a decision coupled with reference to the positive contribution towards fixed costs. Few made comment on non-financial reasons such as loss of reputation and impact on employees if the factory was closed.

# ACCOUNTING

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<p><b>Paper 9706/22</b> <b>Structured Questions</b></p>
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## **Key messages**

Candidates should show workings for computational questions.

In written questions, candidates should make sure that they provide sufficient development to their answers.

Candidates must develop greater analytical skills and learn to extract information from scenarios to make their answers relevant.

## **General comments**

The paper provided ample opportunity to well-prepared candidates to answer questions across the full range of the syllabus.

Candidates also answered the cost and management question reasonably well, though there is a need to provide better development of written answers.

Good structured workings can only help the candidate answer the question and this is a skill that must be developed.

## **Comments on specific questions**

### **Question 1**

- (a) The question required candidates to prepare a corrected income statement from an original income statement containing errors. The question was generally well answered by many candidates. The most common error was to incorrectly account for the goods that had been sent to a customer on a sale or return basis.
- (b) The statement of financial position was very well answered by the well prepared candidates, though those less well prepared did not produce a statement in the acceptable format.
- (c) Advising the sole trader whether or not he should create a provision for doubtful debts was well answered and it. Many students also justified their response as required in the question.

### **Question 2**

- (a) Given a list of errors, candidates were required to show adjustments to the sales ledger control account and to the list of sales ledger balances. The responses to this question covered the whole spectrum. Those candidates who were familiar with the operation of a sales ledger control account were able to score well. Unfortunately, many candidates did not appear to understand the relationship between the control account and the extracted sales ledger balances and were unable to provide an appropriate answer.
- (b) Candidates were asked to state four advantages to a business of preparing a sales ledger control account. Many candidates produced too simplistic responses. For example, 'reduces fraud' was insufficient – it should have been developed to indicate how fraud was reduced, i.e. due to segregation of duties.

### Question 3

- (a) (i) Calculation of the depreciation charge for plant and equipment following an addition was well answered by a large number of candidates.
- (ii) Preparation of the motor vehicle disposal account proved challenging to a large number of candidates. This was mainly due to use of an incorrect notation in the ledger account. Candidates must be made aware that the correct notation must reference the corresponding ledger account. For example, the correct notation for the loss on sale is a posting to the income statement.
- (b) Most candidates gained good marks by explaining two accounting concepts applied when providing for depreciation.
- (c) Well prepared candidates were able to score well by recommending the method of finance for the purchase of additional plant and equipment.

### Question 4

- (a) Most candidates were able to offer two valid benefits and two valid limitations of break-even analysis.
- (b) The majority of candidates were able to correctly calculate the break-even point in units.
- (c) Calculation of the margin of safety in units and in revenue proved more challenging for the less well prepared candidates.
- (d) Calculation of the maximum monthly profits produced very mixed results. The key was to ascertain that the maximum capacity was 320 units.
- (e) Preparation of the marginal cost statement was again very mixed. Well prepared candidates scored well though a number of candidates again did not produce the statement in a marginal cost format.
- (f) Asked to advise the directors whether or not they should accept the new contract resulted in many candidates not being able to score well due to inadequate development. However, the well prepared candidates did produce some good responses.
- (g) The requirement to state three financial benefits of a system of budgetary control produced was not answered well. The vast majority of candidates did not respond to the requirement of financial benefits.

# ACCOUNTING

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<p><b>Paper 9706/23</b> <b>Structured Questions</b></p>
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## Key messages

Candidates should always provide clear workings when answering computational questions to get credit 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

Both the computational as well as discursive elements of these questions are equally important.

Presentation of double entry accounts is an area that does need improvement.

## Comments on specific questions

### Question 1

The question concerned the accounting records and financial statements of a limited company.

- (a) Candidates were required to prepare ledger accounts to record an issue of shares. The question was generally not well answered. Only the stronger responses were able to gain more than two or three marks. Weaker responses could not prepare proper double entry accounts. The detail in any double entry system is vitally important and each entry must be referenced to each other. Many candidates, for example, used the reference 'Application account' – there was no application account in the records.
- (b) Preparation of the statement of changes in equity was completed well by a number of candidates. However, some candidates did not recognise that the data provided was at the end of the accounting period and as such had to be worked back to calculate the position at the start of the period. Less well prepared candidates were unsure of the correct treatment of the dividends paid, often reducing share capital by these amounts.
- (c) Most candidates were able to offer a valid difference between debentures and ordinary shares.
- (d) Advising the directors which method of raising finance to recommend produced very mixed results. Well prepared candidates recognised that there had recently been a share issue that was oversubscribed and also that debentures would incur interest charges whereas ordinary shares dividends are at the discretion of the directors.
- (e) Most candidates were able to correctly define the term 'revenue expenditure'.
- (f) Almost all candidates correctly identified the capital expenditure in respect of building the factory extension, though a number of candidates did not recognise that the employee wages would be a capital expense.

## Question 2

- (a) Preparation of the income statement was well done by a large number of candidates. Many candidates did not show their workings. Candidates must be aware that when producing an income statement, adjustments for accruals and prepayments must be adjusted on the expense heading, it is not acceptable for them to be shown as a separate entry on the face of the statement.
- (b) Well prepared candidates were able to provide three benefits of keeping full double entry accounting records.

## Question 3

- (a) Preparation of the revaluation account was well done by most candidates, though presentation of the account was often not well done. Candidates should again remember that double entry rules must be followed, including correct details.
- (b) Most candidates were aware of the rules regarding goodwill on a partner leaving and produced a correct journal entry.
- (c) Whilst many candidates were able to prepare a correct statement of the amount due to the partner leaving, the most common errors were a failure to account for the partner's current account balance and not recognising that part of the amount due was to remain as a loan to the partnership.
- (d) Almost all candidates were able to state three items that may appear in a partnership agreement.
- (e) Regarding the difference between a realisation account and a revaluation account, it appeared that whilst most candidates were probably aware of the difference, some had difficulty in expressing their answer in a clear manner.

## Question 4

- (a) Most candidates answered this question well and calculated the budgeted profit or loss with majority showing knowledge of the process in using contribution per unit of limiting factor.
- (b) Most candidates were able to follow their workings in task (a) by calculating the budgeted loss resulting from the shortage of available materials.
- (c) The discursive nature of the third task produced mixed responses.
- (d) Most candidates correctly defined the term 'margin of safety'.
- (e) Few candidates were able to explain the usefulness of the margin of safety to a business. This appears to be a reflection that candidates are placing great emphasis in the techniques of management accounting without perhaps appreciation the uses of those techniques.

# ACCOUNTING

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<p><b>Paper 9706/31</b> <b>Structured Questions</b></p>
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## General comments

Generally, candidate performance was reasonable. Candidate performance on discursive questions was not as good as on the numerical questions.

## Comments on specific questions

### Question 1

- (a) Candidates did not perform well on this question. Most candidates were unable to provide an appropriate explanation although invariably they were able to apply their knowledge in part (b).
- (b) This was well answered by most candidates. The most common errors included the incorrect treatment of carriage inwards and direct expenses and also posting the factory machinery depreciation incorrectly.
- (c) Most candidates made the transfer from the manufacturing account correctly and computed the gross profit. Few, however, were able to correctly calculate the values of the opening and closing inventories.
- (d) This was not answered well with few candidates accounting for the unrealised profit.
- (e) This was well answered with most candidates giving a decision and then justifying it with appropriate reasoning.

### Question 2

- (a) Most candidates answered this well.
- (b) The income statement was well prepared. Some candidates made errors in adjusting the shop purchases. A few candidates also included expenses not related to the shop.
- (c) The income and expenditure account was also prepared to an acceptable standard. Some candidates incorrectly calculated subscriptions and many did not adjust the rent of catering facilities correctly.
- (d) This was well answered although errors often occurred in posting the subscriptions in arrears and subscriptions in advance.
- (e) Though most candidates provided a decision and a reasoned justification, responses were often repetitive.

### Question 3

- (a) This was very well answered with most candidates stating two correct advantages.
- (b) Again, well answered with most calculating the ratios correctly. The most common error was not accounting for the preference shares dividend.

- (c) The ratio calculations proved to be more testing with many not being able to adjust the given data correctly.
- (d)(i) There was some reasonable analysis but many candidates mixed up the two years and treated year ending 31 December 2016 as year ending 31 December 2015 and vice versa.
- (ii) Most candidates provided reasonable advice to justify their decision including the implication of the intended issue of the debentures.

#### Question 4

- (a) Most candidates were able to state the meaning of 'capital account'.
- (b) The preparation of the sole trader capital accounts was not well answered with only a few candidates correctly accounting for the profit or loss on revaluation or making the correct cash entries.
- (c) The partnership capital accounts were prepared to a higher standard with many candidates scoring full marks by bringing forward their sole trader balances and making correct cash adjustment.
- (d) This was well answered although many did not enter the cash and cash equivalents correctly.
- (e) Most candidates correctly identified that one partner was better off and one was worse off based on profitability but did not consider other relevant matters.
- (f) Most candidates correctly identified two advantages. Since this was a 'discuss' question candidates should have developed their identified advantage to obtain full credit.

#### Question 5

- (a) There were weak responses to this question with many just identifying 'discounts due to bulk buying'.
- (b) This was well answered with many correctly calculating total profit and profit per unit together with the decrease.
- (c) The calculation of the variances was not well answered with relatively few calculating all correctly.
- (d) Responses were weak with few appropriate explanations.
- (e) Most candidates obtained two of the three available marks by giving the required advice and justifying it by the change in profit.

#### Question 6

- (a) This was well answered with most candidates making the correct apportionment.
- (b) Most were able to then calculate the profit or loss per unit. A few candidates worked in totals and could not convert to a unitary value as required.
- (c) Most candidates were able to apply the accountant's analysis but there were relatively few fully correct solutions. The most common error was not being able to apportion the remaining overheads on the basis of sales units.
- (d) This was well answered with most candidates making a correct calculation based on their own brought forward figures.
- (e) Most candidates gave a decision but the justification was invariably generic and did not consider the products.
- (f) Responses were acceptable with most being able to state the required meanings of the given terms.

# ACCOUNTING

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<p><b>Paper 9706/32</b> <b>Structured Questions</b></p>
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## **Key messages**

When presenting work always ensure that full workings are shown. Not doing so often leads not getting full credit.

Always use correct labels when presenting financial statements. For the financial statements of limited companies labels must be in line with those identified by International Accounting Standards (IAS). It should be stated that abbreviations such as gp for gross profit or np for net profit are not acceptable as labels.

When presenting answers to ratio questions always ensure that the correct prefix (say, \$) or suffix (say %) are shown against the answer.

It is important to have knowledge of International Accounting Standards and their impact on the presentation of financial statements.

## **General comments**

Generally the paper was well attempted. There were, however some areas where improvements could be made. These will be considered below.

## **Comments on specific questions**

### ***Section A – Financial accounting***

#### **Question 1**

This question was based on the preparation of a statement to calculate the profit for the year for a restaurant operated by a club. Generally it was quite well attempted.

- (a) There were two main issues here. First, some candidates did not adjust the purchases figure resulting from the increase in trade payables. Many simply took the payments figure to be the purchases figure without realising that a trade payables control account needed to be prepared to calculate the actual purchases figure. Second, candidates often did not calculate the closing inventory correctly.
- (b) (i) Candidates were then asked to calculate the gross margin for the restaurant and determine the difference between it and the figure for a competitor. Most made correct calculations. The only real issue was candidates using the profit for the year rather than the gross profit in their calculation.
- (b)(ii) This was not well attempted. Gross margin can only be increased by selling at a higher price or by reducing cost of sales or both. Many simply stated that an increase in sales would lead to an increase in gross margin.
- (c) A significant number of candidates were not aware of the bookkeeping entries for the receipt of a life subscription or how an annual amount is transferred to the income and expenditure account.
- (d) In general candidates identified whether or not the person in question should become a life member of the club.



## Question 2

This question was based on the presentation of the final accounts for a limited company.

- (a) The statement of changes in equity was generally well attempted. The main issues were in placing items in the wrong columns and/or treating them in the wrong direction. Some candidates used incorrect labels for accounts. An opening and closing date should be included to avoid not getting full credit.
- (b) A proposed final dividend is never included in the financial statements for the year, but included as a note.
- (c) The purchase of the new factory was also a non-adjusting event, as it occurred after the end of the financial year. A significant number of candidates incorrectly stated that it should be included as part of the financial statements for the year in question.
- (d) This was quite well attempted, although often only one-sided arguments were presented.
- (e) Candidates demonstrated a lack of knowledge of bookkeeping entries in respect of a revaluation of a non-current asset. Three adjustments were required; to the cost, accumulated depreciation and revaluation reserve. Many only gave one, or at best two of them.

## Question 3

- (a) (i) This was not well answered. Many candidates were not aware of the meaning of stewardship in relation to the roles of the owners and directors of a limited company.
- (ii) Most identified that directors manage the company and safeguard its assets. However, the need for directors to report to the shareholders at the AGM was rarely mentioned.
- (iii) Most correctly identified the purpose of a year-end audit and the role of the auditors in connection with it. It is worth stating though that the role of the audit is *not* to detect fraud or errors. These were often mentioned and could not be rewarded.
- (b) (i) Most candidates were able to calculate a figure for closing inventory. The main problem was candidates using an incorrect mark-up percentage. Other common errors were not adjusting sales and purchases for returns.
- (ii) Most candidates calculated a figure for gross profit. However, some reworked their answer to (b)(i), sometimes with a different result, which cost valuable time.
- (c) This was not well answered. The revised gross profit using the given inventory value of \$24 000 was often not calculated. The percentage change was calculated between the initial inventory figure and the figure of \$24 000, rather than the change in gross profit resulting from it.
- (d) This was also not well answered. The methods of valuing inventory were usually discussed. There was no indication in the question of the valuation used by the company. The question was looking for possible reasons for differences between the physical quantity of inventory and the book quantity of inventory.
- (e) It was in this answer where candidates needed to discuss valuation of inventory for inclusion in the financial statements. Many did discuss the use of the lower of cost and net realisable value. Almost all stated a conclusion.

#### Question 4

This question concentrated on the ratios. Generally it was not well attempted. As a general point, the question asked for ratios to be expressed to two decimal places. This was often not done, or done incorrectly with rounding.

- (a) The income gearing ratio was not well done. Many candidates calculated the debt/equity ratio rather than the gearing ratio.
- (b) (i) Candidates only deducted one item for finance costs. A second debenture had been issued and thus finance costs for this should also have been included. The ordinary dividend paid was also included. This is entered in the statement of changes in equity, not the income statement.  
(ii) Often, again only one of the debentures was included, and usually without mentioning either the interest rate or the date of redemption.
- (c) (i) The mistakes in calculating the ratios in **part (a)** were usually repeated here.  
(ii) The discussion of the effect the issue of the new debenture had on the two sets of ratios was well attempted. Candidates were rewarded based on their own figures for both sets of calculations.
- (d) Most correctly identified at least one disadvantage to the company of the issue of debentures.

#### Section B – Management accounting

#### Question 5

- (a) This was not well attempted. Many candidates simply explained each method of investment appraisal without contrasting between the two, or stated which was easier to calculate. Those who did attempt to contrast the two methods often identified only one difference.
- (b) Most correctly calculated the net present value of the new machine.
- (c) (i) This was quite well attempted. The most common error was candidates calculating the unit net cash flow rather than the annual figure.  
(ii) Many calculated the correct number of years for the payback period. However, the days or months should always be rounded up. This was a common reason for not getting full credit.  
(iii) This was quite well done, with most correctly calculating the annual production for the new machine. The most common errors were the inclusion of annual depreciation in the calculation and incorrectly calculating the unit contribution for year 5.
- (d) Most presented a reasonable discussion as to whether or not the new machine should be purchased, and gave a definitive decision.

#### Question 6

Generally this question was not well done.

- (a) Most candidates correctly calculated the monthly income from sales. However, when calculating purchases the payment figure was calculated using the sales value when it should have been calculated using the cost of sales value. Many candidates also either did not deduct the depreciation charge from the monthly operating costs, or included it twice.
- (b) This section was reasonably well attempted. The most common error was to use the cash received and paid for the sales and purchases figures.
- (c) Often this question was not attempted at all.

The question was looking for an identification of the opening section of a statement of cash flows, adjusting the profit calculated in **part (b)** with the depreciation charge, and the movements in inventory, trade receivables and trade payables.

- (d) This was not well done. Very few candidates concentrated on the implications of the cost of purchase of the new computer with the cash balances calculated in **part (a)**, despite the question pointing candidates in this direction. Too often there were generic answers about the advantages and disadvantages of computerising the stock control system.

# ACCOUNTING

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<p><b>Paper 9706/33</b> <b>Structured Questions</b></p>
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## General comments

Overall candidate performance was satisfactory. The quality of the written work as well as the computational elements was good.

## Comments on specific questions

### Question 1

- (a) This was well answered with a significant number of candidates providing four correct terms.
- (b) This was also well answered by most candidates with many preparing a fully correct account. The most common error was the miscalculation of the subscriptions.
- (c) Nearly all candidates correctly added their surplus to the given opening balance.
- (d) Well answered with most candidates displaying a good knowledge of life membership accounting.
- (e) Most candidates gave a recommendation along with appropriate justification. A limited number did disregard the rent saving in appraising the building of the boathouse.

### Question 2

- (a) Most candidates explained the meaning of the term 'revaluation reserve' reasonably well.
- (b) The capital accounts were well prepared with a limited number of fully correct accounts. The most common errors were the omission of the dissolution costs and the incorrect treatment of the settlement of the trade receivables and trade payables.
- (c) Well answered with many fully correct sections of the statement. The most common error was the incorrect posting of the share premium value.
- (d) Candidates demonstrated a good knowledge of the required shares though some disregarded the cumulative effect of the preference shares.

### Question 3

- (a) Most candidates prepared the ledger accounts to a high standard and scored most of the available marks. There were no common errors.
- (b) This question was also well answered but a significant number of candidates did not consider the effect on the profit per container as a result of the increased cost.
- (c) Relatively few candidates gave an appropriate reason.

#### Question 4

- (a) Nearly all candidates gave an acceptable explanation with many obtaining both of the available marks.
- (b) Nearly all candidates made the calculation correctly.
- (c) The statement was prepared to a high standard with some being fully correct. The most common error was the miscalculation of the profit for the year and this was invariably due to not adjusting the debenture interest paid for the period of its issue. Most candidates prepared an appropriate note in respect of the proposed dividend.
- (d) Most candidates gave a decision and appropriate justification. Performance was variable with some very good answers but some which were repetitive as well as some which only considered one of the options.

#### Question 5

- (a) This was generally well answered although some candidates did not deal correctly with the fixed overheads.
- (b) Nearly all candidates calculated the total cost of production correctly.
- (c) Most candidates calculated the labour variances correctly but relatively few were able to calculate the fixed overhead variances correctly.
- (d) The reconciliation was prepared to a high standard with most candidates obtaining at least three of the four available marks.
- (e) Most candidates gave a decision but the justification was often less than convincing.

#### Question 6

- (a) This was well answered with many candidates stating two appropriate benefits.
- (b) Again, well answered with some fully correct budgets. Most calculated the receipts correctly. The most common error related to the payments to the suppliers.
- (c) Responses were generally acceptable.
- (d) This was well answered with a limited number of fully correct statements. The most common error was the omission or miscalculation of the discount allowed.