

ACCOUNTING

Paper 0452/12
Paper 12

Key messages

Candidates should always attempt multiple choice questions and never offer 'no response'.

As always, when preparing ledger accounts, labels such as BBD and BD are unacceptable. Ideally, balance b/d or c/d should be written.

Labelling items is extremely important when preparing income statements or statements of financial position. Again, abbreviations such as COGS for cost of goods sold or GP for gross profit are not acceptable. In questions concerning clubs or associations, correct terminology is required to gain marks.

Candidates should always indicate where they may have re-written an answer in a different section of the answer booklet.

General comments

The paper was well attempted by a number of candidates. The number of candidates not attempting questions is reducing and candidates generally completed the paper. However, the main causes for candidates not being awarded marks relates to the key messages above and will be commented on below.

Comments on specific questions

Question 1

This question comprised ten multiple choice items. There were only a few instances where candidates made no attempt at a particular answer. It needs to be repeated that it is always worth attempting this type of question.

Some questions caused more difficulty than others and they are discussed below.

- (b) Correction of entries is always a problem. Candidates should be encouraged to start by writing the initial entry, the correct entry and then decide on which entry is necessary to resolve it.
- (g) The incorrect treatment and the value of the drawings of goods led to incorrect answers in this question. Candidates should practise rewriting the 'capital' section of the statement of financial position.
- (i) The treatment of the decrease in work in progress clearly caused an issue in this question. Candidates should be encouraged to draft a production account showing an opening and closing work in progress.

Question 2

- (a) A majority of candidates answered this question correctly. A small number lost marks as they did not use the names of the individuals, but rather stated 'supplier' and 'customer'.
- (b) This question was addressed well. Most candidates could suggest acceptable reasons for the issue of a credit note although some just described the role of a credit note rather than the reason for its issue.

- (c) A significant number of candidates confused sales and purchases returns, and others did not understand what is meant by a book of prime entry, providing answers such as 'purchase ledger', 'nominal ledger' etc. In this situation, candidates should be encouraged to really think through who is 'buying' and who is 'selling' the goods.
- (d) This was reasonably well answered. Many candidates answered with specific reference to Amitav and Barry, which was acceptable, rather than general reasons for keeping books of account.
- (e) The majority of candidates understood the principle of duality, although a small number lost marks for not being specific enough or not giving enough detail – for example, duality means two effects without expanding further. Many candidates cited duality means 'giving' and 'receiving' without expanding.
- (f) This question required candidates to complete the gaps in two sentences using given terms. Most were successful but some candidates used 'balance sheet' instead of the given term 'statement of financial position'.
- (g) There were several 'no responses' or answers which were too general stating that accounts should be 'understandable' and there was some confusion with 'reliability'. However, it was pleasing to see that many candidates had learnt the definition well and referred to the users of financial statements.
- (h) This question had the highest 'no response' returns. Candidates did not know the purpose of international accounting standards although some did know it involved common formats, practices, rules, and methods.
- (i) This question is repeated regularly in exam papers and is generally well answered. Candidates lost marks by not providing adequate reasons for why a party may be interested. The reasons were either too general or not related to the interested party. The most common choice was 'bank' and often candidates cited whether a business could repay the loan or interest rather than the bank assessing whether or not to grant a loan or overdraft. Similarly with 'trade payables' where candidates talked about whether the customer was paying for goods bought rather than the ability to pay in the future.

Question 3

- (a) A large number of candidates achieved full marks for this question. Some common errors were the inclusion of the equipment in the working capital and the treatment of the bank as a liability. Many candidates recognised that Simran's capital must include the equipment but then did not use their own figure from (i) in the correct way.
- (b) Many candidates displayed an excellent knowledge of double entry in this question. Others made some basic mistakes such as reversal of entries, failing to balance the entries and not using the correct names for ledger accounts ('Simran' for 'capital', 'private motor vehicle' for 'vehicle' and 'credit transfer' for 'bank'). Transaction 4 proved the most problematic with many candidates not understanding the gross amount owed to Neel, ignoring the discount received, or calculating the discount received as 4% of the amount paid (\$1.92).
- (c) Many candidates achieved (i) and (ii) but offered transaction 2 for (iii).
- (d) The majority of candidates identified correctly the section of the statement of financial position as being current liabilities, however the item was often stated as accrued wages or expenses. A few candidates misread the question and made reference to sections of the income statement.
- (e) Many candidates were confused by this question. Incorrect payment to Neel from (b) was used and many included the discount received. Other issues were the omission of the opening balance and the inclusion of drawings and the private motor vehicle.
- (f) Candidates were very well prepared in the preparation of ledger accounts with many achieving full marks. Some common mistakes were in the incorrect narrative for the dishonoured cheque e.g. dishonoured cheque or Paul instead of 'bank', not specifying 'sales' returns or omitting the \$20 cash received. Weaker candidates netted off the bad debt with bank receipts.

Question 4

- (a) This was answered correctly by the majority of candidates.
- (b) This question was attempted very well by many candidates but for others it was answered extremely poorly. It was clear that candidates understood how to deal with Vehicle A but unfortunately when it came to Vehicle B many candidates attempted to include figures for the year ended December 2015, hence the calculation for December 2016 being incorrect. However, the main issue came with the equipment. The calculation for December 2015 was dealt with correctly but a large number of candidates did not appreciate the additional capital purchased in 2016. Many calculated a second year based on the original purchase of equipment and consequently offered an incorrect net book value at 31 December 2016.
- (c) A large number of candidates produced a reasonable extract from the statement of financial position. However, a number omitted the headings for cost, accumulated depreciation and net book value and some did not total the net book value column. Most candidates correctly brought forward accumulated depreciation from (b) but some used the depreciation for the year ended December 2016.
- (d) This was answered correctly by a large majority of candidates. Most candidates also used the new international terminology.

Question 5

- (a) This question was generally poorly answered. Many candidates omitted the loan receipt or alternatively treated it as the opening balance. Some recognised the loan repayment without receiving it in the first instance and a few candidates netted off the loan resulting in a correct figure for balance brought down. A small number of candidates deducted the stock of trophies from the payment for trophies indicating weak knowledge of the difference between receipts and payments and income and expenditure accounts.
- (b) Candidates either performed very well in this question but generally this area proved to be an issue for many candidates. Main areas of weakness were that once correct figures for accruals and prepayments were calculated they were treated incorrectly in the account. Incorrect labelling of subscriptions, complete reversal and the transfer to 'income and expenditure' (often income statement or subscriptions received). Occasionally when candidates arrived at a figure for income and expenditure it was not correctly used in **part (c)**.
- (c) Many very strong candidates did not achieve full marks here as a result of incorrect presentation. Candidates did not show the net income/profit from tournaments and coach travel in the income section but separated the expenses into the expenditure section. The treatment of the inventory was often omitted or added to cost. Depreciation was often calculated correctly but the cost of equipment was also included. Weaker candidates included the repayment of the loan and some lost the mark for surplus by incorrectly labelling it profit.
- (d) This question required candidates to comment on reasons on why there are differences between the closing balance on the receipts and payments account and the final figure on the income and expenditure account. There were some very good answers with appropriate examples, clearly indicating candidates understood the theory of this section. Issues arose when candidates did not indicate which account they were referring to which they must be encouraged to do. In many instances, candidates were able to give an example but not provide a sufficient reason. This question resulted in a high level of 'no response'.

Question 6

- (a) Candidates were required to calculate retained earnings at 31 December 2016 and hence were not penalised for narratives. There was a very positive response to this question with many gaining full marks. The main issue was in the calculation of the dividend. The common answer being \$18 000 (calculation based on share capital \$200 000). There were some calculations of \$9000 assuming 9% of the \$100 000 debentures. Some candidates omitted the retained profit brought forward.
- (b) Candidates were less confident with this question. As an extract of a statement of financial position was required correct narratives were necessary which many did not present. Share capital was

frequently shown as \$400 000, debentures were often included and despite a correct calculation brought forward from **(a)** the retained earnings of \$80 000 were included again.

- (c)** This was mainly well addressed. A small number of candidates merely stated that D Limited made a profit.
- (d)** Few candidates achieved the full two marks here as there was often repetition of the same point, for example, to have funds for retention, expansion, retained earnings or general reserve. There were relatively few comments about funds being needed for immediate liquidity.
- (e)** The candidates who performed well in **(a)** and **(b)** also scored highly in this question. However, it was generally apparent that candidates had not prepared well for this area. Many candidates used the retained earnings for the numerator and many omitted the debentures from the capital employed figure. Some candidates used a denominator of the share capital \$200 000.
- (f)** This is a frequently asked question and candidates were confident in providing two suitable reasons. Candidates should be careful in not repeating the same point, for example, lower profit, and higher expenses. As a general guide, one comment on capital and one on profit is required.
- (g)** This question gave the opportunity to candidates to demonstrate their understanding of the scenario. Some candidates, however, did not focus on this and gave very general factors to consider. Many candidates were clear about the requirements and offered very astute observations about payment of interest, dividends, the impact of the number of shares and the repayment term etc. Some candidates included the consideration of preference shares and their comparison with ordinary shares.

ACCOUNTING

Paper 0452/22
Paper 22

Key messages

All the questions on this structured paper were compulsory.

Candidates are reminded of the importance of reading through a question carefully before attempting an answer. This ensures that an important piece of information is not overlooked and that instructions are followed precisely. A factually correct statement which is not the answer to the question being asked cannot be awarded credit.

Where appropriate, candidates are advised to provide supporting calculations. This ensures that at least some credit may be earned even though the final answer may be incorrect.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary to cross out all or part of the answer and provide another answer elsewhere on the question paper. It is very important that candidates indicate that this has been done. A note 'Please refer to page...' or 'Continued on page...' would ensure that this additional work is not overlooked when the script is being marked.

Candidates should avoid the use of inappropriate abbreviations such as 'PC', 'COGS' in financial statements and 'bbd' for balance brought down in ledger accounts.

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of 'old' terminology.

It is important that candidates present accounting statements in the correct format and that appropriate descriptions are used in both financial statements and in ledger accounts.

General comments

Accounting is a subject in which precision is extremely important. The written answers produced in some of the narrative questions were vague and lacked clarity.

It is important that candidates have a thorough knowledge of double entry book-keeping and can apply this knowledge to the various scenarios on the question paper.

Comments on specific questions

Question 1

- (a) Using data provided, candidates were required to complete and balance a cash book. The calculation of the cash discount on 15th December proved to be challenging for some candidates. The actual cheque paid was \$702 which was after deducting cash discount. This represented $97\frac{1}{2}\%$ of the balance due. The discount was \$18.

Common errors included entering drawings on the debit side, calculating the contra incorrectly and using incorrect dates.

- (b) Some partially completed ledger accounts were provided together with relevant information relating to these accounts. Candidates were asked to close the accounts by making year-end transfers or balancing as necessary. Many candidates found this question difficult. Some straightforward marks were wasted when balances were not actually brought down.

The inventory account should have been credited with the transfer of the opening inventory to the income statement. The inventory account should then have been debited with a transfer from the income statement of the closing inventory. It was then possible to balance the account and bring down a debit balance of \$13 420. A common error was to make a transfer of \$770 to the income statement.

In the provision for depreciation account a common error was to calculate the depreciation for the year as \$1900 instead of \$1216. This was the result of calculating the rate of depreciation on the cost rather than the net book value.

The general expenses relating to the current year were stated in the question so this should have been transferred to income statement and the accrual should have been debited and brought down as a credit balance.

The rent receivable for the current year of \$5520 should have been transferred to the income statement and the balance owing by the tenant credited and brought down as a debit balance.

A common error was to balance the drawings account: this should have been transferred to the capital account.

In the capital account the motor vehicle and the profit should have been credited and the drawings debited. The account should then have been balanced and the balance brought down.

Question 2

- (a) Candidates were required to explain the meaning of five accounting terms. Most candidates understood that the income statement is used to calculate the profit or loss but many did not relate this to a time period, e.g. a financial year.

The majority of candidates understood that this was a statement showing the assets and liabilities of a business but did not state that this related to a certain date.

The majority of candidates earned at least one of the available two marks by explaining that these were assets which are kept for a period longer than one year. Only some candidates expanded this statement and gained the additional mark.

Most candidates were able to explain that non-current liabilities are those which do not have to be repaid in the next twelve months.

Almost all candidates recognised that capital represents the resources invested in a business, but many did not explain who had provided these resources.

- (b) One example of an intangible asset was required. The most popular answer was 'goodwill', but there were other good examples such as 'intellectual property'.
- (c) The current ratio and the quick ratio of a business were stated and candidates were required to comment on the current ratio. It was obvious from the ratio that the current assets were greater than the current liabilities: a number of candidates incorrectly referred to assets and liabilities rather than current assets and current liabilities. The better candidates correctly explained that the ratio was very high and this was not an efficient use of resources.
- (d) An explanation was required why the quick ratio is a better measure of liquidity than the current ratio. Most candidates correctly explained that this ratio excludes inventory from the calculation because this is the least liquid current asset.
- (e) Two actions to increase the quick ratio were required to be suggested. It is necessary to be specific and state how such actions might be put into effect for example obtaining a long-term loan.
- (f) (i) Candidates were asked to explain how applying the historical cost principle may be regarded as a limitation of financial statements. It was expected that candidates would explain that all transactions (not just assets) are recorded at the original cost. Consequently it is difficult to compare transactions taking place at different times.
(ii) An explanation was required on why non-financial factors may be regarded as a limitation of financial statements. Most candidates understood that only monetary transactions can be recorded; consequently many important factors do not appear in the financial statements.

Question 3

- (a) Using information provided, a manufacturing account had to be prepared. There were many wholly correct responses. Some candidates did not label important figures such as cost of materials consumed, prime cost and cost of production. It is preferable to deduct the purchases returns from the purchases and thus show the net purchases. The depreciation of the machinery and the loose tools proved to be challenging to some candidates. Some candidates included extraneous items such as office wages. The factory overheads should be added to the prime cost and not deducted from it. The prime cost plus overheads should have then be adjusted for the work in progress
- (b) The income statement of a manufacturing business had to be prepared. Many candidates earned full marks. Once again, marks were forfeited because of missing labels for items such as cost of sales, gross profit and profit for the year. A number of candidates included extraneous items such as loose tools. There were a few errors which could have been avoided such as omitting the cost of production calculated in **part (a)**, adding the returns instead of deducting them, and not adjusting the office wages for the amount accrued.
- (c) Candidates were required to suggest one reason why loose tools were revalued each year rather than depreciated using other methods of depreciation. Very few candidates managed to explain that it is not practical to keep detailed records of these low-value items and so it is difficult to apply the other methods of depreciation.

Question 4

- (a) An account appearing in a trader's ledger was provided and candidates were asked to name the section of the ledger in which this would appear. Many correctly identified the purchases ledger.
- (b) Candidates were asked to explain an entry in the account which represented Lahiru returning goods to Nusrath. Most candidates recognised the item as being purchases returns but did not explain which person was returning the goods. Many candidates simply stated 'returns' for the account in which the double entry would be made. This was not regarded as adequate; the answer should have specified 'credit the purchases returns account'.
- (c) (i) Many candidates correctly calculated the percentage of discount which was deducted in one of the transactions. A number of candidates incorrectly calculated \$11 as a percentage of \$429 rather than as a percentage of \$440.

- (ii) The majority of candidates correctly stated that the discount was deducted because Lahiru made payment within the specified period. A number of candidates incorrectly stated that Nusrath made the payment.
- (d) A reason why a contra entry was made in the account of a supplier was required. Candidates should have explained that this was to set off the amount Lahiru owed Nusrath against the amount Nusrath owed Lahiru. A few erroneously described a contra entry in a cash book
- (e) Very few candidates were able to produce the correct journal entry to record the contra from Lahiru's account in the sales ledger to his account in the purchases ledger. Some attempted entries from the sales account to the purchases account.
- (f) Candidates were required to calculate the balance of the personal account of Lahiru and to state the section of the statement of financial position in which it would appear. The majority correctly calculated the balance.
- (g) A provision for doubtful debts account had to be prepared. There were many wholly correct answers. Common errors involved including extraneous items such as the trade receivables, an incorrect transfer to income statement and incorrect dates.
- (h) Most candidates were able to explain that the principle of prudence is applied by maintaining a provision for doubtful debts to ensure that the profit and current assets are not overstated. It is important to be specific and refer to 'current assets' or 'trade receivables' rather than 'some assets'.
- (i) An explanation of how the principle of accruals was being applied by maintaining a provision for doubtful debts was required. Most candidates merely gave a definition of the principle which was not adequate. The sales for which is business is unlikely to be paid are regarded as an expense of the year in which those sales are made.

Question 5

- (a) Candidates were required to calculate the purchases made by a trader who had not maintained a full set of accounting records. The calculation was acceptable in the form of an arithmetic calculation or a ledger account. Many candidates earned good marks. A number of candidates incorrectly included the opening and closing inventories. The treatment of the discount and the interest proved challenging for some candidates.
- (b) The trading section of an income statement had to be prepared in order to calculate the revenue for the year. The inventories were stated in the question and the purchases figure had been calculated in **part (a)**.

Many candidates could not calculate the gross profit, and, consequently, could not get the correct revenue figure. The gross profit margin (gross profit as a percentage of revenue) was 20%, so the gross profit should have been calculated at 25% of the cost of sales.
- (c) Using their own figure of cost of sales from **part (b)**, a vast majority of candidates calculated the rate of inventory turnover correctly.
- (d) Candidates were required to suggest two ways in which the rate of inventory turnover could be improved. Most candidates correctly suggested reducing the inventory levels. Incorrect suggestions included reducing cost of sales and reducing selling prices.
- (e) Most candidates correctly identified the principle of prudence.
- (f) A table had to be completed to indicate the effect on profit for the current year and the following year of an over-valuation of inventory. Most candidates earned at least one of the two available marks.

- (g) Two ways in which the gross profit margin could be increased had to be stated. Many limited their response to 'reduce cost of sales' but did not offer suggestions as to how this could be achieved e.g. buying from cheaper suppliers. Some incorrectly suggested increasing the amount of goods sold. There were many references to reducing the cost of production, but there was no mention in the question that the data related to a manufacturing business.

Question 6

- (a) Journal entries were required to correct three errors. A large number of candidates did not follow the instruction to show correcting entries for only errors 3 – 5 and attempted to make entries for all five errors and lost valuable time.

To correct the error of sales returns being credited to the purchases returns account it was necessary to debit both the sales returns and the purchases returns accounts with \$960 and to credit the suspense with \$1920.

The bank balance of \$1500 had been entered as a bank overdraft in the trial balance. To correct this it was necessary to credit the suspense account with \$3000. No debit entry is required as the cash book was actually correct.

A credit note for \$210 was incorrectly credited to the supplier's account as \$120. This resulted in two errors being made: an incorrect figure being recorded on the wrong side. The correcting entry is to debit the account of the supplier (AK Stores) and credit suspense account with \$330.

- (b) A table had to be completed to indicate the effect on the profit for the year of correcting five errors. A common error was to use ticks in all the columns ignoring the dollar sign at the top of each of the first two columns. Where the item affect the profit it was necessary to indicate the amount by which the profit would increase or decrease: it was only in the last column where a tick should have been used to indicate that the profit was not affected.