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ACCOUNTING

<p>Paper 0452/01 Multiple Choice</p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	21	A
2	B	22	B
3	B	23	B
4	A	24	D
5	C	25	B
6	B	26	A
7	A	27	B
8	B	28	C
9	C	29	A
10	A	30	A
11	B	31	A
12	A	32	A
13	B	33	C
14	B	34	A
15	B	35	A
16	D	36	D
17	A	37	A
18	B	38	C
19	B	39	D
20	B	40	D

General comments

This was the seventh sitting of this paper. There were 3014 candidates (June 2003, 2786 candidates). The mean mark was 29.3 out of 40 (June 2003, 26.6). Standard deviation was 8.0 (June 2003, 8.3).

Judged against accessibility limits of 60-99%, no item was too easy and six items were too difficult. The overall standard showed considerable improvement compared to recent years. All the items were within the Core Syllabus.

Comments on specific questions

Item 9

38% thought, wrongly, that the payment for an extension to shop premises decreased the retailer's capital (option **A**), with only 26% selecting the key **C**. 20% chose **B** and 16% chose **D**, suggesting substantial guess-work.

Item 10

Whilst 53% correctly chose **A**, 21% thought that the supplier would issue a sales invoice to a customer who had been overcharged.

Item 11

36% incorrectly identified the sales journal as the prime entry book in which the sale of a fixed asset would be recorded (option **C**). 52% chose the key, **B**.

Item 21

52% chose the key, **A**. 28% incorrectly added the unpresented cheques to the Bank Statement balance and then deducted the cash book balance (option **C**).

Item 30

Although 47% correctly chose **A**, there was considerable confusion over the treatment of rent owing and rent paid in advance, with 24% choosing **B** (rent paid in advance added) and 22% choosing **C** (rent owing added).

Item 34

59% knew the formula for calculating credit sales from incomplete records, option **A**. Some guess-work was evident in the choices of **B** (15%) and **C** (17%).

<p>Paper 0452/02</p>

<p>Paper 2</p>

General comments

Candidates generally performed quite well, and many submitted very good scripts. Many gave good answers to all the topics covered in the question paper, but others showed a marked weakness in some specific areas as set out below. Most gave good answers to the short questions in **Question 1**, but some candidates found parts of the question difficult. **Question 2 (a)** was generally well answered and many earned full marks for the whole question by also answering part **(b)** correctly although some found **(b)(ii)** more challenging. Answers to **Question 3** varied widely and considerable weakness was found in completing ledger accounts satisfactorily. **Question 4 (a)** was well answered by those who read the question carefully but many became confused. Good answers to part **(b)** and part **(c)** were offered by those who had correctly answered part **(a)** but others found part **(b)** difficult although able to do better in part **(c)**. There were some good answers to **Question 5 (a)** with many candidates earning full marks by correctly setting out the Profit and Loss Account and the Appropriation Account. Answers to part **(b)** were disappointing and very few candidates earned the full marks available.

Most candidates attempted all the questions although it was noticed that weaker candidates would attempt the written part of a question in priority to preparing accounts, for example. There was no evidence of time pressure preventing candidates from completing the question paper.

Comments on specific questions**Question 1**

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus which produced some good answers although some specific difficulties were found with two questions.

- (a)** Most candidates were able to identify a fixed asset likely to be used by an engineering business, and popular answers included machinery, premises, motor vehicle (van), and equipment.
- (b)(i)** Most candidates knew that the document sent to a customer by a supplier when goods are bought on credit is a (sales) invoice, although some offered debit note or, less convincingly and wrongly, credit note.
- (ii)** The book of prime (original) entry in which the customer will enter the transaction was correctly identified as the Purchases Day Book or Purchases Journal although some candidates became confused between customer and supplier and offered Sales Day Book or Journal.

- (iii) Again most correctly chose the Sales ledger in which the supplier will keep his customer's account but some opted for the Purchases ledger and some chose incorrect books at random such as the Journal ledger.
- (c)(i) The calculation of the depreciation charge was well done and most candidates achieved the correct answer as follows:

$$\frac{\text{Original cost (\$46 000) less scrap value (\$6 000)}}{\text{Number of years (5)}} = \$8 000$$

The correct calculation of the percentage depreciation rate was:

$$\frac{\text{Depreciation (\$8 000)}}{\text{Cost less scrap value (\$40 000)}} \times 100 = 20\%$$

Many candidates incorrectly calculated the percentage depreciation rate on the original cost (\$46 000) and obtained the incorrect answer of 17.39%.

- (d) Many candidates correctly explained that an error of original entry was where the incorrect figure had been entered in the prime records, and the incorrect figure had then been carried forward and posted into the correct accounts in the ledger. However a disappointing number simply answered by saying that an original error had been made, which was not sufficient for the mark.
- (e) Most candidates were able to offer a reason for a supplier giving trade discount, for example, it may have been for bulk purchases, to encourage the customer to return for additional business, or to enable the customer to make a profit. Very few became confused with cash discount.
- (f) Most candidates correctly answered that a difference on a trial balance should be posted to a suspense account.
- (g) A majority correctly selected one of the accounting ratios measuring profitability, including gross profit percentage (margin), net profit percentage (margin), and return on capital employed (ROCE) but some chose other incorrect measures such as the current or quick ratio.
- (h) The calculation of the amount charged for electricity in a trader's Profit and Loss Account was very variable, with a wide range of answers being offered. The better candidates found it helpful to show a ledger account with opening and closing balances, the bank payments and the resulting correct charge, but many reversed the opening and closing accruals, some added both, some subtracted both, and some omitted one or the other. The correct answer was:

Bank payments (\$18 000) less opening balance (\$3 000)
plus closing accrual (\$4 000) = \$19 000.

Question 2

- (a) This was very well answered with most candidates gaining full marks by inserting the correct words and figures in the boxes in a Balance Sheet set out on the question paper. The correct answers were:

- (i) \$25 000
- (ii) Assets
- (iii) \$3 000
- (iv) Creditors
- (v) Capital
- (vi) \$20 000
- (vii) Drawings

A very few became confused and incorrectly added the original cost and net book value of fixed assets together, some showed the total of the printed current assets instead of the missing prepayments figure, and a surprising number gave 'Discount' instead of 'Creditors' after the word 'Trade', perhaps being confused from **Question 1 (e)**.

- (b)(i) Most candidates were able to calculate the correct current ratio as

$$\frac{\text{Current assets } (\$40\,000)}{\text{Current liabilities } (\$20\,000)} = 2 : 1$$

but some did not show the answer as a ratio in the form n:1

- (ii) The majority of candidates again correctly calculated the quick ratio but there were a surprising number who incorrectly deducted the prepayments (\$3 000) from the current assets and obtained the wrong figure for the ratio. The correct answer was

$$\frac{\text{Current assets } (\$40\,000) \text{ less Stock } (\$24\,000)}{\text{Current liabilities } (\$20\,000)} = 0.8 : 1$$

and again some candidates did not show the ratio in the correct form n:1. Answers in the form 1:1.25 were not accepted.

Question 3

- (a)(i) The question required candidates to write up the purchases, purchases returns, sales and sales returns accounts in a ledger from information about monthly totals found from the respective journals. This was not well answered. It was necessary to show the date, correct description and correct amount on the correct side of the account for each entry and many candidates failed to show sufficient attention to detail in these areas. A large number of candidates were unable to show the correct description for the entry in the ledger, and should have known that entries such as 'Purchases', 'Returns' and 'Sales' were not correct even if they were shown on the correct side of the account and with the correct amount.

A surprising number of candidates made the entries on the reversed side of each account and a number invoked the Journal to transfer amounts from one account to another. None of this was correct.

The correct entries are as follows. A running balance format is also acceptable.

Purchases account		
30 April 2004	Total purchases (Purchases journal)	50 000
Purchases returns account		
	30 April 2004	Total purchases returns (Purchases returns journal) 6 000
Sales account		
	30 April 2004	Total sales (Sales journal) 85 000
Sales returns account		
30 April 2004	Total sales returns (Sales returns journal)	8 000

- (ii) Most candidates correctly identified the nominal or general ledger as the correct ledger in which the above accounts are kept, although there were a surprising number of incorrect answers of sales and purchases ledgers, sales and purchases control accounts and imaginative books of account such as the Journal ledger.

- (b) Many candidates correctly answered that Carriage inwards was added to the cost of purchases (or the cost of goods sold) in the Trading (and Profit and Loss) Account, and also correctly answered that Carriage outwards is shown as an expense in the Profit and Loss Account.
- (c)(i) Entering a purchase of office machinery in the Purchases account was correctly identified as an error of principle by many candidates but error of commission and occasionally error of original entry were also found.

The effects of this error on the Profit and Loss account is to increase Purchases or cost of goods sold, and therefore to decrease gross and net profit. The effect on the Balance Sheet is to understate the amount of fixed assets and therefore to understate capital or net profit. Many candidates correctly identified one or two of these effects but few correctly stated all, and many seemed to think that the Balance Sheet would not agree (or 'tally') or that working capital would be affected. There was confusion over use of the words 'overstated' and 'understated', and 'overcast' and 'undercast' to describe an increase or decrease in an amount.

There was a wide variety of proposed journal entries to correct the identified error and many candidates did not pay sufficient attention to detail in setting out the journal entry of the accounts concerned, stating that the account to be credited was the 'Purchases journal'. The correct journal entry is

	DR	CR
	\$	\$
Office machinery	10 000	
Purchases		10 000

Question 4

- (a)(i) This part of the question required candidates to calculate a trader's debtors at the end of the accounting year using the opening balance given, selecting the correct items from information about receipts from debtors, payments to creditors, discounts allowed and received and credit sales and purchases. It was necessary to select the correct items and then to add or subtract them from the opening figure to obtain the correct closing balance.

Those candidates who approached this question by preparing a control account and entering the appropriate items on the correct side derived the correct answer and gained full marks. It was not necessary to show the answer as an account, however, and arithmetic calculations, sometimes with narrative and sometimes without, often arrived at the correct answer and earned marks. A considerable number of candidates selected the wrong items from the information given, added items instead of subtracting and vice versa, confused the correct treatment of discount allowed and received, and offered many versions of the answer, all of them wrong.

It was noticeable that many candidates had clearly learnt a formula to calculate sales from incomplete records and attempted to apply this formula to the information given. Some therefore calculated a new figure for sales and thought this was the required answer. Others added their derived figure to the figure already given and therefore double counted, but as the required answer was for debtors and not sales, this was wasted effort. A very few used the formula they had learnt to calculate debtors by solving the remembered equation for the missing term (debtors). This gave the correct answer and earned marks.

A number of candidates were so confused that they simply wrote down numbers from the question at random in the hope that some were correct and would earn marks. This was not the case as unless it could be seen whether an amount was to be correctly added or subtracted from another amount, it was not possible to discern whether the candidate was making any correct attempt at the question.

The correct answer is as follows

Debtors at 1 April 2003	8 000
Add Credit sales	<u>90 000</u>
	98 000
less Receipts from debtors	83 000
Discount allowed	<u>5 000</u>
	88 000
Debtors at 31 March 2004	<u>10 000</u>

- (ii) This part of the question required a similar calculation to part (i) but for creditors, and those who attempted part (i) satisfactorily also obtained the correct answer for part (ii). Similar mistakes were made to those mentioned above. The correct answer is

Creditors at 1 April 2003		6 000
Add Credit purchases		<u>77 000</u>
		83 000
less Receipts from creditors	74 000	
Discount received	<u>3 000</u>	
		<u>77 000</u>
Creditors at 31 March 2004		<u>6 000</u>

- (b) Preparation of a Trading account from information given and additional information was well done although candidates who had become confused in part (a) used incorrect figures derived from that part instead of the sales and purchases figures given in the question and lost marks. The Trading account should have been

Sam		
Trading account for the year ended 31 March 2004		
	\$	\$
Sales (credit sales \$90 000 + cash sales \$10 000)		100 000
Less Cost of goods sold		
Stock at 1 April 2003	14 000	
Add Purchases	<u>77 000</u>	
		91 000
Less Stock at 31 March 2004	<u>16 000</u>	
		<u>75 000</u>
Gross profit		<u>25 000</u>

- (c)(i) The calculation of the rate of stock turnover was done well by those who knew the formula, and most candidates used the correct figures from the Trading account above. Some showed that they did not understand the concept and did not earn marks for random calculations.

The calculation is $\frac{\text{Cost of goods sold } (\$75\,000)}{\text{Average stock } (\$15\,000)} = 5 \text{ times}$

Suggestions for ways in which knowing the rate of stock turnover would be useful varied widely, from the incorrect answer of knowing his profit, to the better answers of knowing when to replace his stock, being able to compare his performance with other businesses or with other periods, and identifying causes of fluctuation and being able to take remedial action to improve his profitability. Most candidates made some effort on at least one of these reasons.

Question 5

- (a)(i) Candidates were asked to prepare a partnership Profit and Loss account from information given, and many candidates were able to do this correctly, earning valuable marks. Common errors were to fail to adjust for accruals or the prepayment, or to adjust incorrectly, to reverse the discounts received and allowed, and to omit the depreciation or to include the full cost of the fixed assets. The account is

Wood and Coe		
Profit and Loss account for the year ended 30 April 2004		
	\$	\$
Gross profit		58 000
Add Discount received		<u>1 000</u>
		59 000
less Discount allowed	2 000	
General expenses (\$4 500 + \$500)	5 000	
Rent (\$13 000 - \$3 000)	10 000	
Wages and salaries (\$14 500 + \$1 500)	16 000	
Depreciation (\$40 000 x 20%)	<u>8 000</u>	
		<u>41 000</u>
Net profit		<u>18 000</u>

- (ii) Candidates were then asked to prepare the partnership Appropriation account in accordance with the terms of partnership stated in the question. This was also well attempted by most candidates although some became confused when finding there was a residual loss to allocate in profit sharing ratio and allocated the entire net profit instead, and some added interest on capital instead of showing it as an appropriation. Some of those who had shown Coe's salary in the Profit and loss account in error also included it in the Appropriation account but earned no marks for either entry. The correct Appropriation account is

		\$	\$
Appropriation account for the year ended 30 April 2004			
Net profit			18 000
Less	Interest on capital		
	Wood (\$70 000 x 10%)	7 000	
	Coe (\$20 000 x 10%)	<u>2 000</u>	
		9 000	
	Salary – Coe	<u>15 000</u>	
			<u>24 000</u>
			(6 000)
Share of residual loss			
	Wood (2/3)	4 000	
	Coe (1/3)	<u>2 000</u>	
			<u>6 000</u>
			<u>nil</u>

(A horizontal format was accepted for both the Profit and Loss account and the Appropriation account)

- (b) The final part of the question asked candidates to state and explain two reasons why charging interest on partners' cash drawings could be an advantage to the partnership. Very few candidates answered this well, although some made some effort. Many realised that charging interest on cash drawings would discourage the partners from making drawings, but few went on to say that cash would therefore be retained in the partnership and would assist the working capital position. Many said that charging interest would increase the partnership income or even capital but this was inaccurate as what would in fact be increased is the residual profit to be shared between the partners. Very few obtained full marks on this part.

Paper 0452/03

Paper 3

General comments

The aim of this structured examination paper is to discriminate between candidates obtaining Grades A to C. The syllabus recommends that only those candidates who are expected to achieve a Grade C, or higher, should be entered for this paper.

All the questions were compulsory and were set mainly on Extended Curriculum topics. As usual, the paper was structured so that some of the marks were relatively easy to earn, but other marks could only be earned if candidates demonstrated a greater degree of knowledge and understanding.

It was pleasing to find a significant number of candidates achieving a very satisfactory level of competence and gaining good marks. Some candidates, however, would have benefited from further study before attempting this examination paper.

Questions requiring the application of accounting knowledge to given situations were generally not answered as well as those requiring the preparation of accounts and financial statements. It is important that candidates realise that they are required to know *why* certain accounting procedures are carried out and be able to suggest courses of action in a particular situation.

Candidates must be made aware of the importance of showing calculations. Where calculations are shown candidates may be able to earn some of the available marks, even though the final answer is incorrect: where an incorrect answer is shown without any indication of how that figure has been calculated, no marks can be awarded. A number of candidates also lost marks through lack of attention to detail. Examples in ledger accounts include omission of dates, inaccurate descriptions and failure to bring down balances in 'T' accounts. A small number of candidates lost marks through inappropriate use of abbreviations. For example, the abbreviation 'bbd' is not adequate to describe a balance brought down: the abbreviation 'sfg' is not adequate to describe the closing stock of finished goods.

Comments on specific questions

Question 1

This question involved the preparation of a ledger account for the expense of insurance, theory questions about the use of narratives in the journal and preparation of journal entries.

- (a) From given data, candidates were required to prepare an insurance account. Most candidates elected to prepare the account in the 'T' format; although a three column running balance account was equally acceptable.

The opening prepayment should have appeared as a debit balance and the amount paid should also have been debited to the account. The closing prepayment should have been credited and brought down as a debit balance and the expense for the year transferred to the Profit and Loss Account. Marks were lost because of the omission of dates, inappropriate descriptions, and the failure to bring down the balance on a 'T' account.

- (b)(i) Candidates were required to explain what was meant by the term 'narrative' in connection with journal entries. A large number of candidates were able to state that a narrative is an explanation of why the particular entry is being made. Others restricted their answers to explanations of error correction.
- (ii) Many candidates were unable to explain the reason *why* a narrative should be shown as part of a journal entry. Some repeated their answer to (i): others again concentrated on error correction. A narrative is necessary because of the great variety of transactions recorded in the journal, so that the reason for each entry can be understood in the future.

- (c) Journal entries, with narratives, had to be prepared for three transactions. It was pleasing to find a large number of wholly correct answers.

Common errors included using the names of inappropriate accounts e.g. 'goods' or 'stock' instead of 'purchases' in item 1, and 'purchases' instead of 'motor vehicles' in item 2. Some candidates also gave unsuitable narratives, such as 'cash withdrawn for own use' (when it should have been 'goods withdrawn for own use') for item 1, and 'error of posting' (when it should have been 'correction of error') for item 2.

Question 2

This question required candidates to prepare a Manufacturing Account and a Trading Account. Candidates were also required to state two reasons why a trader would find departmental final accounts useful.

- (a) A Manufacturing Account had to be prepared from given data. Most candidates elected to present the account in vertical format, but horizontal format was equally acceptable. It was pleasing to find a large number of candidates gaining good marks on this question. Prime cost and cost of production should have been clearly labelled, the factory overheads should have been grouped together and totalled, and the adjustment for closing work in progress should have been made after the overheads had been added to the prime cost.

Marks were lost where candidates duplicated figures, such as purchases of raw materials in both the Manufacturing Account and the Trading Account. Some also made careless errors such as adding the closing stock of raw materials to the purchases and deducting the overheads from the prime cost. Inappropriate labelling also caused marks to be lost. 'S' is not appropriate for 'Closing stock of raw materials': similarly 'Dp' is not appropriate for 'Depreciation of machinery'.

It was somewhat disappointing to find a few candidates attempting, unsuccessfully, to prepare a combined Manufacturing and Trading Account. They incorrectly started with the sales, deducted cost of materials and then deducted the overheads. It is important that candidates realise the purpose of a Manufacturing Account is to calculate the cost of producing the goods. This should be kept separate from the calculation of the gross profit.

- (b) A Trading Account had to be prepared, using given data and the candidate's own cost of production calculation in (a). Once again, most answers were prepared using vertical format, but horizontal format was equally acceptable. It was pleasing to find a large number of candidates gaining full marks on this question. Instead of using the cost of production from (a), a few candidates included purchases of raw materials. As with the Manufacturing Account, it is important that items are clearly labelled.
- (c) Two reasons why it would be useful for a trader to know the results of each department of his business separately were required. It was pleasing to find that many candidates were able to state two acceptable reasons.

Question 3

This consisted of theory questions relating to suspense accounts and the preparation of a corrected Balance Sheet.

- (a) Candidates were asked to state when it is necessary to open a suspense account. The vast majority of candidates were able to state that this was necessary when a trial balance failed to balance. A few incorrectly stated that it was necessary to open the suspense account in order to correct errors. Whilst the correction of errors often involves the suspense account, the primary reason for opening the account is to temporarily balance the trial balance until the errors are discovered.
- (b) Two errors were described and candidates had to identify which of these errors required a correcting entry in the suspense account and also to give a reason for their answer. It was pleasing to find that many candidates correctly identified the second error as the one which would be corrected using an entry in the suspense account. Despite this, not all these candidates were able to explain why such an entry was required. This error affected the balancing of the trial balance, and, therefore, required correction by a credit entry in Susan Zafar's account and a double entry in the suspense account.
- (c) Candidates were presented with a summarised Balance Sheet of a trader and given a list of errors which had subsequently been discovered. A corrected Balance Sheet had to be prepared. Balance Sheets in both horizontal and vertical format were equally acceptable.

Despite being asked to show the calculation of the corrected net profit, many candidates failed to realise that all the errors affected the net profit. Many used the original net profit figure: others inserted a figure to make their Balance Sheet balance. It is important that candidates read questions carefully to see what is required. It is also important that calculations are shown where appropriate. Several candidates made an attempt to adjust the profit, but failed to show their calculations. No marks can be awarded for the figure in these circumstances.

Common errors included not labelling the figure of working capital (or incorrectly identifying working capital as total assets less current liabilities), not labelling and totalling current assets and current liabilities, failing to label the cost and the depreciation of the fixed assets. Instead of increasing the net profit by \$30, a number of candidates incorrectly deducted the expenses prepaid from the profit figure. Error number 4 caused problems for some candidates. Several incorrectly reduced the net profit by \$500 (the depreciation up to the date of sale) and listed the fixed assets at cost \$35 900 (deducting the amount received from the sale instead of deducting the original cost of the assets sold).

Question 4

This question was based on the topic of bad debts, bad debts recovered and provision for doubtful debts. Candidates were required to prepare ledger accounts using given data, and also to answer related theory questions.

- (a) Candidates were required to state one reason why a business maintains a provision for doubtful debts. A suitable reason was given by many candidates. It was pleasing to find many candidates actually mentioning the accounting principle of prudence. Some candidates attempted a definition of a provision for doubtful debts rather than explaining *why* it is maintained. A few candidates appeared to believe that the provision is *actual money* set aside to cover future bad debts.
- (b) From a list of transactions, candidates were required to write up ledger accounts for a debtor, bad debts, bad debts recovered and provision for doubtful debts. Both 'T' accounts and three column running balance accounts were equally acceptable.

This part was often answered well, and many candidates gained high marks. A number of candidates, however, did not appear to be very well prepared on this topic and did not gain very high marks.

Common errors included complete reversal of the provision for doubtful debts account, failure to bring down the balance on the provision for doubtful debts account (when presented in 'T' format), inaccurate descriptions (e.g. 'purchases' instead of 'sales' in the debtor's account, 'balance' instead of 'Profit and Loss Account').

- (c) The answers to this question were generally very disappointing.

Candidates were given three situations and asked to state, giving a reason, what entries (if any) the trader should make in his accounting records. This involved the application of accounting principles to given situations. Many candidates were unable to apply their knowledge and make suitable recommendations. Some candidates did manage to state the necessary entries, but were unable to explain *why* these entries should be made. It was not uncommon for the answer to be given as 'write it off' in all three situations.

The first situation involved a small amount outstanding for a considerable length of time from a debtor, whom the trader was now unable to find. Candidates were expected to recommend that this debt be written off as a bad debt as there appeared to be little chance of recovering this debt.

In the second situation, a debtor had informed the trader that he would not be able to settle his account within the normal credit period, and would probably not be able to pay for a further two months. Candidates were expected to recommend that no entries should be made: the account was still likely to be paid and there was no evidence that it would not be paid.

Finally candidates were informed that the trader thought that he was unlikely to receive some of the amount owing by debtors. Candidates were expected to recommend that the trader create (or amend) his provision for doubtful debts to avoid over-stating both his debtors and his net profit.

Question 5

This question involved the calculation and interpretation of accounting ratios, identification of parties who are interested in the accounts of a trader, and explanation of margin and mark-up.

- (a) This part required candidates to explain the terms margin and mark-up. There were many correct answers. A large number of candidates described the meaning of the terms and gave suitable formulae to support their statements.

It was, however, disappointing to find some candidates stating that the term mark-up referred to the net profit as a percentage of the sales, or that it was either the gross *or* net profit as a percentage of sales.

- (b)(i)** Using given data, candidates were required to calculate four ratios for a trader. It was pleasing to find many candidates gaining full marks on this question. Some candidates lost marks when calculating the collection period for debtors and the payment period for creditors as they used the total sales and total purchases figures instead of just the credit sales and credit purchases.
- (ii)** Using their own answers to **(i)**, candidates were required to suggest two possible reasons which could account for the change in each of the ratios over two years. It was disappointing to find that only a very few candidates gained full marks on this question.

Some candidates were able to state that purchasing goods at a lower price could increase the gross profit percentage but failed to suggest other reasons such as reducing trade discounts or increasing selling prices. A reduction in expenses was often suggested as a reason for the increase in the net profit as a percentage of sales. Other acceptable reasons included increase in the gross profit percentage (not the gross profit in monetary terms) and difference in the types of expense (fixed and variable).

The responses to the reasons for the changes in the collection period for debtors and the payment period for creditors were often limited to unacceptable statements such as an increase/decrease in debtors/creditors or an increase/decrease in sales/purchases. Reasons for the increase in the length of debtors' collection period include less efficient credit control, not allowing cash discounts to encourage prompt payment and allowing longer credit to maintain sales. Reasons for the increase in the creditors' payment period include shortage of liquid funds, the knock-on effect of debtors taking longer to pay and suppliers not allowing cash discount.

- (c)** Candidates were required to name three business people who would be interested in the trader's final accounts and to give one reason in each case. It was pleasing to find that many candidates were able to gain full marks on this question. Common acceptable answers included the trader himself, the bank manager, creditors, the manager, lenders/potential lenders. A few candidates successfully named suitable business people, but were not able to explain clearly the reason for their interest. As the business concerned was that of a sole trader, it was not acceptable to include shareholders and partners as interested parties.