

Example Candidate Responses Paper 2

Cambridge IGCSE™ / IGCSE (9–1) Accounting 0452 / 0985

Cambridge O Level Accounting 7707

For examination from 2020



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Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge IGCSE/IGCSE (9-1) Accounting 0452 / 0985, and Cambridge O Level Accounting 7707 to show how different levels of candidates' performance (high, middle or low) relate to the subject's curriculum and assessment objectives.

In this booklet, candidate responses have been chosen from March 2020 scripts to exemplify a range of answers.

For each question, the response is annotated with a clear explanation of where and why marks were awarded or omitted. This is followed by examiner comments on how the answer could have been improved. In this way, it is possible for you to understand what candidates have done to gain their marks and what they could do to improve their answers. There is also a list of common mistakes candidates made in their answers, where relevant.

This document provides illustrative examples of candidate work with some examiner commentary. These help teachers assess the standard required to achieve marks beyond the guidance of the mark scheme. Therefore, in some circumstances, such as where exact answers are required, there will not be much comment.

The questions and mark schemes used here are available to download from the School Support Hub. These files are:

0452 March 2020 Question Paper 22
0452 March 2020 Paper 22 Mark Schemes

Past exam resources and other teaching and learning resources are available on the School Support Hub:

www.cambridgeinternational.org/support

How to use this booklet

This booklet goes through the paper one question at a time, showing you the high-, middle- or low-level response for each question. The candidate answers are set in a table. In the left-hand column are the candidate answers, and in the right-hand column are the examiner comments.

Example Candidate Response – Question 1, high		Examiner comments				
Amara Petty Cash Book						
Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	2020 January 1	Balance (b/d)				
135	January 1	Petty cash				
	3	Stationery	24		24	
	7	travelling expenses	49	49		
	14	Razors	85			85
	22	Taxi fare	18	18		
	29	Postage	11		11	
			187	67	35	85
	31	Balance (c/d)	16			
200	2020		200			
13	February 1	Balance (b/d)				

Answers are by real candidates in exam conditions. These show you the types of answers for each level. Discuss and analyse the answers with your learners in the classroom to improve their skills.

Examiner comments are alongside the answers. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams so you can help your learners to refine their exam technique.

1 Petty cash is an incorrect narrative as this transaction is being posted into the petty cash book. The correct narrative is 'bank' indicating the corresponding credit entry for the double entry system. Mark for (a) = 9 out of 10

How the candidate could have improved their answer

- (a) This candidate could have used the correct narratives that indicated how the imprest amount had been restored via the bank and the payments made to Amara by petty cash. The presentation of all ledger accounts and cash books were very important.
- (d) This part required two single discrete answers. Multiple answers were given, including incorrect examples such as a standing order, which should have been avoided. In this style of question, only the first two answers were rewarded to avoid multiple guesses.

This section explains how the candidate could have improved each answer. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.

Common mistakes candidates made in this question

- Inaccurate narratives were entered into the petty cash book.
- Incorrect restoration and balancing of the imprest levels of the petty cash system.
- Failure to deduct discount from sales returns figure based upon the list price of goods.
- Reversed debit and credit entries were used when preparing Amara's account.

Often candidates were not awarded marks because they misread or misinterpreted the questions.

Lists the common mistakes candidates made in answering each question. This will help your learners to avoid these mistakes and give them the best chance of achieving the available marks.

Question 1

Example Candidate Response – high

Examiner comments

- 1 Amara maintains a petty cash book using the imprest system. The imprest amount of \$200 is restored on the first day of each month. On 1 January 2020 Amara had a balance of \$65 in her petty cash.

All payments of less than \$100 are made from petty cash.

On 1 January 2020, Amara owed \$85 to Razvan, a credit supplier.

Amara provided the following information for January 2020.

January		
1	✓	The petty cash imprest was restored from the business bank account.
3	✓	Purchased stationery for cash, \$24
7	✓	Paid travelling expenses, \$49
14	✓	Paid Razvan the amount outstanding on his account
18	✗	Purchased goods on credit from Razvan, \$200 less 10% trade discount
22	✓	Paid taxi fare, \$18
28	✗	Returned goods to Razvan which had been purchased on 19 January, list price \$40
29	✓	Paid postage, \$11

REQUIRED

- (a) Prepare Amara's petty cash book for the month of January 2020, on the page opposite.

Balance the petty cash book and bring down the balance on 1 February 2020.

Example Candidate Response – high, continued

Examiner comments

Amara
Petty Cash Book

Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	2020 January 1	Balance (b/d)				
135	January 1	Petty cash				
	3	Stationery	24		24	
	7	travelling expenses	49	49		
	14	Razors	85			85
	22	Taxi fare	18	18		
	29	Postage	11		11	
			187	67	35	85
	31	Balance (c/d)	13			
200	2020		200			
13	February 1	Balance (b/d)				

1 'Petty' cash is an incorrect narrative as this transaction is being posted into the petty cash book. The correct narrative is 'bank' indicating the corresponding credit entry for the double entry system. Mark for (a) = 9 out of 10

Example Candidate Response – high, continued

Examiner comments

Amara's supplier, Razvan, maintains a full set of accounting records.

REQUIRED

(b) Prepare the account of Amara as it would appear in the ledger of Razvan.

Balance the account and bring down the balance on 1 February 2020.

Razvan
Amara account

Date	Details	\$	Date	Details	\$
2020 January 1	Balance b/d	85	2020 January 14	Petty cash	85
19	Sales	180	28	Sales returned	36
			31	Balance c/d	144
		265			265
2020 February 1	Balance b/d	144			

2 The correct narrative is 'petty cash', indicating the corresponding debit entry into the double entry system. Mark for (b) = 5 out of 6

[6]

On 2 February 2020 Amara paid the balance due to Razvan. She deducted cash discount of 2%.

REQUIRED

(c) Complete the following table by placing a tick (✓) in the correct column to show how Razvan should record the cash discount. Where an account has no entry, tick 'no entry'.

	debit	credit	no entry
Amara account		✓	
Discount allowed account	✓		
Discount received account			✓

3 The answer is correct. Mark for (c) = 2 out of 2

[2]

Amara usually pays Razvan by cash or cheque.

REQUIRED

(d) State two other methods which Amara could use to pay Razvan from her bank account.

- 1 direct debit
- 2 credit transfer / standing order
- 3 Cheque

4 Full marks are awarded as point one and the first answer in point two are correct. Mark for (d) = 2 out of 2

[2]

Total mark awarded = 18 out of 20

[Total: 20]

How the candidate could have improved their answer

- (a) This candidate should have used the correct narratives that indicated how the imprest amount had been restored via the bank and the payments made to Amara by petty cash. The presentation of all ledger accounts and cash books are very important.
- (d) This part required two single discrete answers. Multiple answers were given, including incorrect examples such as a standing order, which should have been avoided. In this style of question, only the first two answers were rewarded to avoid multiple guesses.

Example Candidate Response – middle

Examiner comments

- 1 Amara maintains a petty cash book using the imprest system. The imprest amount of \$200 is restored on the first day of each month. On 1 January 2020 Amara had a balance of \$65 in her petty cash.

All payments of less than \$100 are made from petty cash.

On 1 January 2020, Amara owed \$65 to Razvan, a credit supplier.

Amara provided the following information for January 2020.

- January
- ✓ The petty cash imprest was restored from the business bank account.
 - ✓ Purchased stationery for cash, \$24
 - ✓ Paid travelling expenses, \$49
 - ✓ Paid Razvan the amount outstanding on his account
 - ✓ Purchased goods on credit from Razvan, \$200 less 10% trade discount
 - ✓ Paid taxi fare, \$18
 - ✓ Returned goods to Razvan which had been purchased on 19 January, list price \$40
 - ✓ Paid postage, \$11

REQUIRED

- (a) Prepare Amara's petty cash book for the month of January 2020, on the page opposite.

Balance the petty cash book and bring down the balance on 1 February 2020.

Example Candidate Response – middle, continued

Examiner comments

Amara
Petty Cash Book

Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	1 Jan 2020	Balance brought down				
135	1 Jan 2020	Bank purchased				
	3 Jan 2020	Stationery	24		24	
	7 Jan 2020	Traveling expenses	49	49		
	14 Jan 2020	Razvan	85			85
	22 Jan 2020	Razvan Taxi fare	18	18		
	29 Jan 2020	Postage	11		11	
	31 Jan 2020	Balance carried down	8			
200		Totals	200	67	35	85
200			200			
3	1 Feb 2020	Balance brought down				

1 The candidate uses 'purchased' which is an incorrect narrative and is only used for buying goods for resale. The correct narrative is 'stationery' on its own.

2 The correct figure is \$13 for the balance brought down. Mark for (a) = 8 out of 10

Example Candidate Response – middle, continued

Examiner comments

Amara's supplier, Razvan, maintains a full set of accounting records.

REQUIRED

(b) Prepare the account of Amara as it would appear in the ledger of Razvan.

Balance the account and bring down the balance on 1 February 2020.

Razvan
Amara account

Date	Details	\$	Date	Details	\$
2020 1 Jan	Balance b/d	85	2020 14 Jan	Bank	85
	Bank sales			Sales	150
19 Jan	Sales	180	28 Jan	Sales returns	40
			31 Jan	Balance c/d	140
		265			265
2020 1 Feb	Balance b/d	140			

3 'Bank' is an incorrect narrative. Amara is a customer of Razvan, and the balance brought down on the account is \$85. This is paid-off by Amara using petty cash, which is the correct narrative.

4 Sales returns are incorrectly recorded at the gross amount. The list price should be reduced by 10% as trade discount. Mark for (b) = 4 out of 6

[6]

On 2 February 2020 Amara paid the balance due to Razvan. She deducted cash discount of 2%.

REQUIRED

(c) Complete the following table by placing a tick (✓) in the correct column to show how Razvan should record the cash discount. Where an account has no entry, tick 'no entry'.

	debit	credit	no entry
Amara account	✓		
Discount allowed account	✓	5 ✓	
Discount received account			✓

5 The first tick is incorrectly shown as a debit. Discount allowed is incorrectly shown as a credit, resulting in no mark as both discounts require correct answers. Mark for (c) = 0 out of 2

[2]

Amara usually pays Razvan by cash or cheque.

REQUIRED

(d) State two other methods which Amara could use to pay Razvan from her bank account.

- 1 Bank transfer
- 2 Online transfer

Mark for (d) = 2 out of 2

Total mark awarded =
14 out of 20

[Total: 20]

How the candidate could have improved their answer

- (a) The narratives in all ledger accounts represent the exact location for corresponding entries in the accounting system and accuracy is required for tracking and auditing purposes. Precise narratives were required to avoid confusion, in this case, caused by the use of the term 'purchased stationery'. 'Purchased stationery' was the transaction, not the account name. The second error occurred when the cash book was balanced-off. The total of the analysis columns (in this case \$187) is a method known as cross-casting and aids the checking process, which would have reduced the chance of this type of error.
- (b) This candidate was required to identify how trade discount was deducted from a list price before any sales or sales returns were entered into the accounting system. The distinction between how trade and cash discounts are treated is fundamental in avoiding an incorrect entry and balance in the customer account. Regular practice of entering sales and purchase ledger transactions would have reduced this book-keeping error.
- (c) This question assessed the understanding of recording debits and credits into a sales ledger account and recognising that 'discount allowed' was an expense, as the customer was allowed to reduce the amount that they owed by 2%. Practice in producing ledger accounts and recording double entry transactions would have improved the understanding required for this style of question.

Example Candidate Response – low

Examiner comments

1 Amara maintains a petty cash book using the imprest system. The imprest amount of \$200 is restored on the first day of each month. On 1 January 2020 Amara had a balance of \$65 in her petty cash.

All payments of less than \$100 are made from petty cash.

On 1 January 2020, Amara owed \$85 to Razvan, a credit supplier.

Amara provided the following information for January 2020.

- January 1 The petty cash imprest was restored from the business bank account.
- 3 Purchased stationery for cash, \$24
- 7 Paid travelling expenses, \$49
- 14 Paid Razvan the amount outstanding on his account
- 19 Purchased goods on credit from Razvan, \$200 less 10% trade discount.
- 22 Paid taxi fare, \$18
- 28 Returned goods to Razvan which had been purchased on 19 January, list price \$40
- 29 Paid postage, \$11

REQUIRED

(a) Prepare Amara's petty cash book for the month of January 2020, on the page opposite.

Balance the petty cash book and bring down the balance on 1 February 2020.

Example Candidate Response – low, continued

Examiner comments

Amara
Petty Cash Book

Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	2020 Jan 1	Balance b/d				
135		Bank (amount returned)				
	3	purchases stationery	24		24	
	7	Travelling expenses	49	49		
	14	Razvan	85			85
	22	Paid taxi fare	18	18		
40	28	returned to Razvan				
	29	Paid Postage	11		11	
			187	67	35	85
	Jan 31	Balance c/d	53			
240			240			
53	2020 Feb 1	Balance b/d				

- 1 'Purchases' is an incorrect narrative. It indicates the buying of goods for resale. The correct narrative is 'stationery' on its own.
- 2 The candidate uses an incorrect narrative. The correct account name and narrative is 'taxi fare'.
- 3 A return of goods does not involve a cash transaction and is not, therefore, recorded in the petty cash book.
- 4 The candidate uses an incorrect narrative. The correct name of the account and narrative is 'postage'.
- 5 The candidate provides an incorrect answer. One mark is awarded for the final correct answer only.
Mark for (a) = 6 out of 10

Example Candidate Response – low, continued

Examiner comments

Amara's supplier, Razvan, maintains a full set of accounting records.

REQUIRED

(b) Prepare the account of Amara as it would appear in the ledger of Razvan.

Balance the account and bring down the balance on 1 February 2020.

Razvan
Amara account

Date	Details	\$	Date	Details	\$
2020 Jan. 28	sales	40	2020 Jan. 14	Bank	85
		6	19	Sales	180
				Discount	
31	Balance c/d	225			
		265			265
			2020 Feb. 1	Balance b/d	225

[6]

On 2 February 2020 Amara paid the balance due to Razvan. She deducted cash discount of 2%.

REQUIRED

(c) Complete the following table by placing a tick (✓) in the correct column to show how Razvan should record the cash discount. Where an account has no entry, tick 'no entry'.

	debit	credit	no entry
Amara account		✓	
Discount allowed account	✓		
Discount received account			✓

[2]

Amara usually pays Razvan by cash or cheque.

REQUIRED

(d) State two other methods which Amara could use to pay Razvan from her bank account.

- 1 Credit transfer
- 2 7

[2]

[Total: 20]

6 The transactions are reversed, and bank narrative is incorrect. The candidate does not record a balance b/d at 1 January 2020. An own figure for the balance b/d on 1 February is allowed as it could arise on either the debit or credit side of the account. Mark for (b) = 2 out of 6

Mark for (c) = 2 out of 2

7 The candidate's answer requires a second method of payment from a bank account. Mark for (d) = 1 out of 2

Total mark awarded = 11 out of 20

How the candidate could have improved their answer

- **(a)** This candidate needed to be more precise in the narratives entered into the petty cash book. Narratives indicate the corresponding entry into a named ledger account in a double entry system and accuracy is important for tracking and auditing purposes. This candidate stated the transaction rather than the account name.
- **(b)** Answers indicated that the candidate had reversed debits and credits. More practice in entering transactions into the sales and purchases ledgers, as well as entering payments, leads to a better overall understanding of the accounting system.
- **(c)** This question required two methods of making payments from a bank, excluding cheques. There were many traditional methods which have been expanded by the use of electronic and internet banking facilities. These methods were included in the mark scheme and they could have been considered in this context.

Common mistakes candidates made in this question

- Inaccurate narratives were entered into the petty cash book.
- Incorrect restoration and balancing of the imprest levels of the petty cash system.
- Failure to deduct discount from sales returns figure based upon the list price of goods.
- Reversed debit and credit entries were used when preparing Amara's account.

Question 2

Example Candidate Response – high

Examiner comments

2 GHB Limited maintains a full set of accounting records and prepares monthly control accounts.

The following information was provided for November 2019.

	\$
Purchases ledger control account balance at 1 November	?
Totals for November:	
Purchases journal ✓	14 200
Purchases returns journal ✓	1 160
Cash purchases ✗	5 390
Commission receivable ✗	2 110
Cash discount received ✓	650
Cash discount allowed ✗	710
Cheques paid to trade payables ✓	11 420
Sales ledger contra ✓	250
Interest charged by trade payables ✓	95
Cheque refunds from trade payables	330
Purchases ledger control account balance at 30 November	13 195

REQUIRED

(a) Prepare the purchases ledger control account for GHB Limited for November 2019.

Balance the account on 30 November 2019 and bring down the balance on 1 December 2019.

GHB Limited
Purchases ledger control account

Date	Details	\$	Date	Details	\$
2019			2019		
Nov 30	Purchase Returns	1160	Nov 1	Balance b/d	12050
30	Discount Received	650	30	Purchases	14200
30	Bank	11420	30	Interest Charged	95
30	Sales Ledger (C)	250	30	Refunds (Bank)	330
30	Balance c/d	13195			
		<u>26675</u>			<u>26675</u>
			Dec 1	Balance b/d	13195

1 The narratives for both entries of 'interest' and 'bank' lack accuracy. The narratives indicate the corresponding ledger account for tracking in the double entry system. Specific terminology is required and 'Interest charged' and 'Refunds (Bank)' are not accepted.

Mark for (a) = 7 out of 9

[9]

Example Candidate Response – high, continued

Examiner comments

A delivery vehicle was purchased by cheque during November 2019.

REQUIRED

(b) State two reasons why the purchase of the delivery vehicle was not recorded in the purchases ledger control account.

- 1. It is because only the accounts of credit suppliers of goods is maintained in purchases ledger control account.
- 2. It is a capital expenditure and it is in non-current asset.

Mark for (b) = 2 out of 2

(c) (i) State the most appropriate method of depreciation for the new delivery vehicle.

~~Diminishing Balance Method~~ Diminishing Balance Method [1]

Mark for (c)(i) = 1 out of 1

(ii) State three reasons for your answer to (c) (i).

- 1. As the business would be getting the most benefit of the asset in its early years.
- 2. Due to technological improvements, future vehicles would be better and value of this one would be low.
- 3. Due to wear and tear, the asset won't be as useful in the future, so less depreciation is charged.

2 This vehicle is new and therefore the impact of future technological improvement is not considered relevant for determining initial depreciation.

3 The aspect of wear and tear needs to be expanded, with emphasis on heavy initial usage which results in extra depreciation being charged in the earliest years. This unequal use of the vehicle subsequently leads to lower depreciation being charged in later years.
Mark for (c)(ii) = 1 out of 3

Example Candidate Response – high, continued	Examiner comments
<p>The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250 000 will be required for this expansion. The directors are considering whether to issue additional ordinary shares or to obtain a long-term bank loan.</p> <p>REQUIRED</p> <p>(d) Advise the directors which of these two methods of finance is more appropriate. Justify your answer with one advantage and one disadvantage of each option.</p> <p>Ordinary shares might be a good option as GHB Limited would not have to pay the money back in the future so cost less. However, it would dilute the ownership of the company and the dividends of existing shareholders will decrease. A loan would also be a good option as it won't dilute ownership and dividends remain the same. However, it'll add to the long-term liabilities of the business and increase the interest that has to be paid. I think it's best they issue shares as this wouldn't increase the costs and allow the business to make high profits as even shareholders were satisfied.</p> <p>[5] [Total: 20]</p>	<p>4 The candidate makes a key point here that ordinary shares are permanent capital and do not have to be repaid by the company.</p> <p>5 One mark is awarded for stating that extra shares may lead to the dilution of ownership.</p> <p>6 One mark is awarded for pointing out that if a long-term loan is opened this leads to increased cost as interest is charged.</p> <p>7 The candidate makes a clear recommendation to issue ordinary shares based on earlier correct comments regarding the issue of shares and long-term loans in the answer.</p> <p>8 No advantage is given for opening the loan. Dilution of ownership applies to the issue of additional ordinary shares. Mark for (d) = 4 out of 5</p> <p>Total mark awarded = 15 out of 20</p>

How the candidate could have improved their answer

- (a) The narratives used by this candidate in posting to the purchase ledger control account needed to be specific to the corresponding ledger accounts used in the book-keeping system. The terminology is specific and does not require development, as this leads to confusion when tracing errors or following an audit trail. The transaction was a refund, but the account involved was the bank account.
- (c)(ii) This candidate should have considered more detailed reasons for selecting the reducing balance method of depreciation.
- (d) The candidate should have given a clear advantage for opening a long-term loan. The question asked to justify the answer by giving one advantage and one disadvantage for each option. Marks were allocated accordingly. Candidates are advised to follow the structure suggested by the mark scheme.

Example Candidate Response – middle **Examiner comments**

2 GHB Limited maintains a full set of accounting records and prepares monthly control accounts.

The following information was provided for November 2019.

	\$
Purchases ledger control account balance at 1 November	?
Totals for November:	
Purchases journal	14 200
Purchases returns journal	1 160
Cash purchases	5 390
Commission receivable	2 110
Cash discount received	650
Cash discount allowed	710
Cheques paid to trade payables	11 420
Sales ledger contra	250
Interest charged by trade payables	95
Cheque refunds from trade payables	330
Purchases ledger control account balance at 30 November	13 195

REQUIRED

(a) Prepare the purchases ledger control account for GHB Limited for November 2019.

Balance the account on 30 November 2019 and bring down the balance on 1 December 2019.

GHB Limited
Purchases ledger control account

Date	Details	\$	Date	Details	\$
31 Nov	Purchase return	1160	1 Nov	Balance b/d	7320
	Cash discount	650	31 Nov	Purchases	14200
	Bank	11420		Cash	5390
	Sales	250		Interest charged	95
	Refund	330			
	Balance c/d	13195			
		27005			27005
			1 Dec	Balance b/d	13195

[9]

- 1 The own figure mark is not awarded as the account includes a cash purchase known as an extraneous item, which should not be included in a ledger control account and corrupts the balance accordingly.
 - 2 A cash purchase is an extraneous item and does not appear in the purchase ledger control account.
 - 3 The candidate uses an incorrect narrative. The correct narrative is 'sales ledger'.
 - 4 The candidate uses an incorrect narrative. The narrative must refer to the specific account such as interest or interest payable.
 - 5 'Refund' does not refer to a specific account; in this case, the corresponding entry is from the bank account.
- Mark for (a) = 5 out of 9

Example Candidate Response – middle, continued

Examiner comments

A delivery vehicle was purchased by cheque during November 2019.

REQUIRED

(b) State two reasons why the purchase of the delivery vehicle was not recorded in the purchases ledger control account.

- 1 Purchase of goods are only recorded in the purchases ledger control account.
- 2 Purchase of delivery vehicle is the purchase of non-current asset and purchase ledger control a/c is credit for it.

Mark for (b) = 2 out of 2

(c) (i) State the most appropriate method of depreciation for the new delivery vehicle.

Reducing balance method. [1]

Mark for (c)(i) = 1 out of 1

(ii) State three reasons for your answer to (c) (i).

- 1 Being non-current asset. The balance for the value of the vehicle is never nil. 6
- 2 As each year the depreciation is charge on the book value not the cost, so it is more appropriate. 7
- 3 At last a resale value is left to market which help in calculating the resale value. 8 [3]

6 The candidate's answer does not represent a reason for using the reducing balance method.

7 The candidate needs to give a reason and explain why depreciation is charged on the net book value rather than cost.

8 The candidate's answer is too vague, as any method of calculating depreciation will arrive at a possible resale value. The answer should specify why the reducing balance method is chosen in part (c)(i).
Mark for (c)(ii) = 0 out of 3

Example Candidate Response – middle, continued	Examiner comments
<p>The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250,000 will be required for this expansion. The directors are considering whether to issue additional ordinary shares or to obtain a long-term bank loan.</p> <p>REQUIRED</p> <p>(d) Advise the directors which of these two methods of finance is more appropriate. Justify your answer with one advantage and one disadvantage of each option.</p> <p>The business business if obtain a long term loan then it need to pay a fixed rate of interest ⁹ per annum. Whereas if the business issue ordinary share it need to pay a share of profit to the shareholders in the form of dividend ¹⁰ which might be more than the interest need to pay to bank on loan. Hence it should ¹¹ go for a long term bank loan.</p> <p>[5] [Total: 20]</p>	<p>⁹ One mark is awarded for the point that interest has to be paid on a long-term loan.</p> <p>¹⁰ One mark is awarded for the point that shareholders are paid a dividend, representing an extra cost in return for issuing extra shares.</p> <p>¹¹ The candidate makes a clear recommendation for a long-term loan. Mark for (d) = 3 out of 5</p> <p>Total mark awarded = 11 out of 20</p>

How the candidate could have improved their answer

- (a) This candidate had a clear understanding of debit and credit entries in the ledger account, but all postings needed to refer to specific corresponding ledger accounts in the book-keeping system. The candidate did not recognise that all transactions supplied in the question were not automatically required and some were extraneous items. Candidates need to be selective at times and not assume that all transactions are relevant to the account requested.
- (b)(ii) This question required specific reasons for applying the reducing balance method of depreciation. The reasons given by the candidate were vague statements that lacked clarity and could have been applied to any chosen method of depreciation.
- (d) The candidate’s answer identified only one disadvantage for each method. This candidate could have developed the answer by supplying an advantage for each method.

Example Candidate Response – low **Examiner comments**

- 2 GHB Limited maintains a full set of accounting records and prepares monthly control accounts.
The following information was provided for November 2019.

	\$
Purchases ledger control account balance at 1 November	?
Totals for November:	
Purchases journal	14200
Purchases returns journal	1160
Cash purchases	5390
Commission receivable	2110
Cash discount received	650
Cash discount allowed	710
Cheques paid to trade payables	17420
Sales ledger contra	250
Interest charged by trade payables	95
Cheque refunds from trade payables	330
Purchases ledger control account balance at 30 November	13195

REQUIRED

- (a) Prepare the purchases ledger control account for GHB Limited for November 2019.

Balance the account on 30 November 2019 and bring down the balance on 1 December 2019.

GHB Limited
Purchases ledger control account

Date	Details	\$	Date	Details	\$
			Nov. 1	Bal. b/d	12710
	Purchases returns journal	1160		Purchases Journal	14200
	Cash discount received	650		Interest charged	95
	Bank	11420			
	Sales ledger	250			
	Cheque refunds	330			
	Bal. c/d	13195			
		27005			27005

- 1 The candidate uses an incorrect narrative. The correct narrative is 'interest' or 'interest payable'.
- 2 The candidate uses an incorrect narrative. The entry is posted to the wrong side of the account. The correct narrative is 'bank'.
- 3 The candidate does not record the credit balance brought down on 1 December of \$13195. Mark for (a) = 6 out of 9

Example Candidate Response – low, continued

Examiner comments

A delivery vehicle was purchased by cheque during November 2019.

REQUIRED

(b) State **two** reasons why the purchase of the delivery vehicle was **not** recorded in the purchases ledger control account.

1 Purchases ledger control account records ~~credit~~ only credit purchases. **4**

2 Delivery vehicle is not related to creditors. **5**

[2]

(c) (i) State the **most appropriate** method of depreciation for the new delivery vehicle.

~~Reducing~~ straight line method. **6**

[1]

(ii) State three reasons for your answer to (c) (i).

1 straight line method applies prudence principle that it will not overstate profit and ~~can~~ anticipate all possible losses. **7**

2 It applies 'matching' principle. -

3 It estimates the value of the non-current assets ~~in the market~~ over its useful life in the market. **[3]**

4 The purchase ledger control account only includes purchases of goods for resale. Assets can be purchased on credit, but they do not appear in this account.

5 A delivery vehicle can be purchased on credit. The reason it is not included is because it is the recording of a non-current asset which represents capital expenditure and not goods for resale.
Mark for (b) = 0 out of 2

6 The candidate does not state the correct method.
Mark for (c)(i) = 0 out of 1

7 As the answer to part (c)(i) is incorrect, no marks are awarded for part (c)(ii).
Mark for (c)(ii) = 0 out of 3

Example Candidate Response – low, continued	Examiner comments
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The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250 000 will be required for this expansion. The directors are considering whether to issue additional ordinary shares or to obtain a long-term bank loan.

REQUIRED

(d) Advise the directors which of these two methods of finance is more appropriate.

Justify your answer with **one** advantage and **one** disadvantage of **each** option.

Finance expansion will increase non-current assets.

Issuing additional ordinary shares will increase capital and reserves, but it will not carry

8 voting rights and have variable fixed rate of dividend. A long term bank loan will increase non-current liabilities and will have to be repaid before any repay of shareholders. They carry a fixed rate of

9 interest. But it will increase non-current liabilities, which for Directors of GHB Limited should issue ordinary shares.

10

8 Any addition to the shares will carry voting rights and any dividends payable to the shareholders will have variable dividends payable. Therefore, both statements made here by the candidate are incorrect.

9 Key point: long-term loan incurs interest.

10 The candidate makes a recommendation; however, this needs to be supported by one correct comment related to the loan and the issuing of ordinary shares. Therefore, the additional decision mark is not awarded. Mark for (d) = 1 out of 5

Total mark awarded = 7 out of 20

[5]
[Total: 20]

How the candidate could have improved their answer

- **(a)** This candidate understood the correct side of the account for posting debit and credit entries. The narratives should have been specific to what referred to corresponding accounts in the book-keeping system, such as 'interest payable' and 'bank'. It was important to highlight the need to balance the account and bring it down to the next accounting period, in this case, 1 December. This figure was used to check against the total of all purchase ledger account balances and was the main reason for producing a purchase ledger control account.
- **(b)** This question required an explanation as to why capital expenditure items were not included in a purchase ledger control account. The purpose of why this account was produced needed to be understood which would have helped develop an understanding of the components that were entered or not entered in the account. In this context, the motor vehicle was not purchased as goods for the purpose of resale.
- **(c)(i)(ii)** This answer had to distinguish and select an appropriate method of depreciation for a particular type of non-current asset. There were well-established methods for calculating the most accurate amounts of depreciation charged in the accounts for different types of assets. The candidate needed clear understanding of the differences between straight-line and reducing balance methods in order to have produced accurate financial statements.
- **(d)** The candidate lacked basic knowledge of each type of funding. Therefore, they were unable to provide justification for the option selected. The statements made were incorrect and lacked structure in how to answer this style of question.

Common mistakes candidates made in this question

- Candidates often reversed control accounts entries.
- Candidates included cash purchase transactions that did not appear in the purchase ledger control account.
- Some candidates incorrectly entered the closing balance on the credit side of the account.
- Some candidates gave unclear explanations for the reasons and advantages of applying the reducing balance method of depreciation.
- Many candidates did not clearly identify advantages and disadvantages for both ordinary shares and a long-term bank loan.

Question 3

Example Candidate Response – high

Examiner comments

3 Tia and Sarna are partners in a trading business.

Their trial balance at 31 December 2019 was as follows:

Tia and Sarna
Trial Balance at 31 December 2019

	debit	credit
	\$	\$
Revenue		124 000
Inventory at 1 January 2019	5 390	
Purchases	55 440	
Discount allowed	2 400	
Discount received		1 385
Carriage outwards	6 160	
Insurance	7 920	
General expenses	8 100	
Wages	9 600	
Trade receivables	11 590	
Trade payables		6 051
Bank	8 136	
Premises at cost	90 000	
Furniture at cost	24 000	
Provision for depreciation on furniture		5 600
Capital accounts		
Tia		80 000
Sarna		40 000
Current accounts		
Tia		2 100
Sarna		1 600
Drawings		
Tia	15 000	
Sarna	17 000	
	<u>260 736</u>	<u>260 736</u>

Additional information

- 1 Inventory at 31 December 2019 was valued at \$5165.
- 2 Depreciation on furniture is to be charged at 20% per annum using the straight-line method.
- 3 The insurance includes a payment of \$2160 for the 12 months from 1 July 2019 to 30 June 2020.
- 4 The partnership agreement provides for
 - interest on capital of 5% per annum
 - a salary to Tia of \$6000 per annum
 - residual profits and losses to be shared equally

Example Candidate Response – high, continued

Examiner comments

REQUIRED

(a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna
Income Statement for the year ended 31 December 2019

	\$	\$
Revenue		124000
Cost of Sales:		
Opening Inventory	6390	
+ Purchases	55440	
	61830	
- Closing Inventory	5165	55665
Gross Profit		68335
+ Discount received		1385
- Expenses		69720
Carriage Outwards	6160	
Insurance (920 = (2160 ÷ 2))	6240	
Prov. for Depreciation on Furniture	4300	
General expenses	2100	
Wages	9600	35500
Profit for the year		34220

1 The combined mark for discounts allowed and carriage outwards is not awarded as the figure for discounts is missing.

2 The profit figure is an own figure mark, if it is correctly deducted from the total income figure.
Mark for (a) = 7 out of 8

[8]

Example Candidate Response – high, continued

Examiner comments

(b) Prepare the appropriation account for Tia and Sama for the year ended 31 December 2019.

Tia and Sama
Appropriation Account for the year ended 31 December 2019

	\$	\$
Profit for the year		34220
Interest on capital: Tia	4000	
Sama	2000	6000
	4	28220
Partner's Salary: Tia		6000
		22220
Profit share: Tia	1110	5
Sama	1110	2220

3 The profit own figure is brought forward from part (a).

4 Interest on capital and partner's salary is correct.

5 The profit share mark is awarded as the own figure of \$22220 is correctly appropriated on a 50:50 basis.
Mark for (b) = 4 out of 4

[4]

(c) Prepare the current account for Sama for the year ended 31 December 2019. Balance the account and bring down the balance on 1 January 2020.

Tia and Sama
Sama current account

Date	Details	\$	Date	Details	\$
2-19 31 DEC	Drawings	17000	2-19 1 JAN	Balance b/d	1600
	Interest on capital		31 DEC	Profit share	1110
			31	Interest on capital	2000
			31	Balance c/d	2290
		17000			17000
2020 1 JAN	Balance b/d	2290	7		

6 Profit share is own figure brought forward from part (b).

7 Balance brought down is an own figure brought down correctly on the debit side.
Mark for (c) = 4 out of 4

[4]

Example Candidate Response – high, continued	Examiner comments
<p>Tia and Sarna are considering transferring \$7000 from the business bank account to an interest-bearing deposit account.</p> <p>REQUIRED</p> <p>(d) Advise the partners whether or not they should make this transfer. Justify your answer by providing advantages and disadvantages.</p> <p>...transferring \$7000 would mean Tia and Sarna maybe able to get high returns from ^{the} interest-bearing account. So in the future they may be able to finance buying expensive non-current assets easily. However the cash would not be accessible in the short term and the bank balance would fall to \$1125, so the business may not have sufficient working capital to pay short term debts. Also Tia and Sarna's business' current ratio may fall so its liquidity may decrease. Therefore, they should not make the transfer. [4]</p> <p>[Total: 20]</p>	<p>8 The candidate assumes that when funds go in a deposit account, the business will get 'high returns' and this would enable the business to buy expensive non-current assets. This is not correct even if the interest rates are exceedingly high. It would only give some small return that would help reduce existing costs. No mark was awarded.</p> <p>9 Not being able to access cash in the short term is a clear disadvantage.</p> <p>10 A second disadvantage is that the business does not have sufficient working capital. There are no advantages identified for either option. Therefore, the recommendation made by the candidate does not receive this additional mark. Mark for (d) = 2 out of 4</p> <p>Total mark awarded = 17 out of 20</p>

How the candidate could have improved their answer

- **(a)** The candidate should have ticked discounts allowed, which indicated that it needed to be treated in the accounting statement.
- **(d)** The candidate should have provided a valid advantage point for one of the options they recommended. If the candidate had written the owners would gain interest on the amount transferred, they would have been awarded an extra mark. An interest-bearing deposit account would not give 'high returns'.

Example Candidate Response – middle

Examiner comments

3 Tia and Sama are partners in a trading business.

Their trial balance at 31 December 2019 was as follows:

Tia and Sama Trial Balance at 31 December 2019		
	debit \$	credit \$
Revenue		124 000
Inventory at 1 January 2019	5 390	
Purchases	55 440	
Discount allowed	2 400	
Discount received		1 385
Carriage outwards	6 160	
Insurance	7 920	
General expenses	8 100	
Wages	9 600	
Trade receivables	11 580	
Trade payables		6 051
Bank	8 136	
Premises at cost	90 000	
Furniture at cost	24 000	
Provision for depreciation on furniture		5 600
Capital accounts		
Tia		80 000
Sama		40 000
Current accounts		
Tia		2 100
Sama		1 600
Drawings		
Tia	15 000	
Sama	17 000	
	<u>260 736</u>	<u>260 736</u>

Additional information

- 1 Inventory at 31 December 2019 was valued at \$5165.
- 2 Depreciation on furniture is to be charged at 20% per annum using the straight-line method.
- 3 The insurance includes a payment of \$2160 for the 12 months from 1 July 2019 to 30 June 2020.
- 4 The partnership agreement provides for
 interest on capital of 5% per annum
 a salary to Tia of \$6000 per annum
 residual profits and losses to be shared equally

Example Candidate Response – middle, continued

Examiner comments

REQUIRED

(a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna
Income Statement for the year ended 31 December 2019

	\$	\$
Revenue		124 000
<u>Less Cost of sales</u>		
Opening Inventory	5390	
Purchases	55440	
Carriage outwards	6160	
	66990	
<u>Less closing inventory</u>	(5165)	61825
GROSS PROFIT		62175
<u>Add Incomes</u>		
Discount received		1385
		63560
<u>Less Expenses</u>		
Discount allowed	2400	
Insurance (2160/12 x 6)	1080	
General expenses	8100	
Wages	9600	
Prov for depreciation on furniture	4800	
	25980	
NET PROFIT		37580

1 Carriage outwards is an expense and does not appear in the trading account. This is an unrelated item and means that the gross profit is incorrect. Therefore, no mark is awarded.

2 The insurance calculation is incorrect; the \$1080 should be deducted from the amount paid during the year.
Mark for (a) = 4 out of 8

[8]

Example Candidate Response – middle, continued

Examiner comments

(b) Prepare the appropriation account for Tia and Sama for the year ended 31 December 2019.

Tia and Sama
Appropriation Account for the year ended 31 December 2019

		\$	\$
Less Profit for the year			37580
Add Interest on Capital	Tia	4000	
	Sama	2000	
		6000	
Partner's salary – Tia		6000	12000
			25580
Profit Share – Tia		12790	
		12790	

3 The profit is an error carried forward.

4 The profit share is a correct calculation on 50:50 basis. However, due to an error carried forward, the result is not correct. Mark for (b) = 4 out of 4

(c) Prepare the current account for Sama for the year ended 31 December 2019. Balance the account and bring down the balance on 1 January 2020.

Tia and Sama
Sama current account

Date	Details	\$	Date	Details	\$
2019 Dec 31	Drawings	17000	2019 Dec 31	Capital	40,000
				Interest on Capital	2000
	Balance c/b	37790		Profit share	12790
		54790			54790
			2020 Jan 1	Balance c/b	37790

5 Capital account balances are not entered into the current account. The impact is that the balance brought down on the account is not correct. Mark for (c) = 3 out of 4

Example Candidate Response – middle, continued	Examiner comments
<p>Tia and Sama are considering transferring \$7000 from the business bank account to an interest-bearing deposit account.</p> <p>REQUIRED</p> <p>(d) Advise the partners whether or not they should make this transfer. Justify your answer by providing advantages and disadvantages.</p> <p><i>Tia and Sama are considering transferring \$7000 to an interest-bearing deposit account, which according to me is a good decision as during emergencies more finance will be available to the business. Although interest would have to be paid which as an expense for Tia and Sama.</i></p> <p style="text-align: right;">[4]</p> <p style="text-align: right;">[Total: 20]</p>	<p>6 The candidate's statement is incorrect, as it may not be possible to withdraw cash.</p> <p>7 This is also an incorrect statement as the investment account pays interest. To gain a recommendation mark, the candidate must provide a correct advantage and disadvantage, yet neither are made.</p> <p>Mark for (d) = 0 out of 4</p> <p>Total mark awarded = 11 out of 20</p>

How the candidate could have improved their answer

- **(a)** It was important that items were identified correctly in terms of where they were included within the trading or expenses section of the income statement. Carriage outwards was an expense and did not appear in the trading section. Carriage inwards did appear in the trading section but was not included in this question. The insurance calculation was also incorrect.
- **(c)** The candidate should not have included the capital account balance. Partnership current accounts were maintained to record regular transactions from the appropriation account and drawings. It was essential to separate fixed capitals from current accounts and vice versa.
- **(d)** The candidate should have followed the specific instructions to answer this question; discuss two advantages and two disadvantages of depositing funds into an interest-bearing account. The candidate also misread the question and answered from the perspective of borrowing a loan with resources readily available. It was important to identify the direction that funds were moving in and this would have determined whether interest was paid or received.

Example Candidate Response – low

Examiner comments

3 Tia and Sarna are partners in a trading business.

Their trial balance at 31 December 2019 was as follows:

Tia and Sarna Trial Balance at 31 December 2019		
	debit	credit
	\$	\$
Revenue		124 000
Inventory at 1 January 2019	5 390	
Purchases	55 440	
Discount allowed	2 400	
Discount received		1 385
Carriage outwards	6 160	
Insurance	7 920	
General expenses	8 100	
Wages	9 600	
Trade receivables	11 590	
Trade payables		6 051
Bank	8 136	
Premises at cost	90 000	
Furniture at cost	24 000	
Provision for depreciation on furniture		5 600
Capital accounts		
Tia		80 000
Sarna		40 000
Current accounts		
Tia		2 100
Sarna		1 600
Drawings		
Tia	15 000	
Sarna	17 000	
	<u>260 736</u>	<u>260 736</u>

Additional information

- 1 Inventory at 31 December 2019 was valued at \$5165.
- 2 Depreciation on furniture is to be charged at 20% per annum using the straight-line method.
- 3 The insurance includes a payment of \$2160 for the 12 months from 1 July 2019 to 30 June 2020.
- 4 The partnership agreement provides for interest on capital of 5% per annum a salary to Tia of \$6000 per annum residual profits and losses to be shared equally

Example Candidate Response – low, continued

Examiner comments

REQUIRED

(a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna
Income Statement for the year ended 31 December 2019

	\$	\$
Revenue	124000	
		124000
Opening Stock	5390	
Purchases	55440	
Closing Stock	(6165)	
Cost of COST OF SALES		(33,665)
		<u>68,335</u>
<u>All: Other Incomes</u>		
Discount Received		1385
<u>Other Expenses</u>		
Carriage Outwards	6160	
Insurance (1920 + 2190)	7200 ¹⁰¹⁰	
General Expenses	8100	
Wages	9600	
* Dep. to Furniture & Equipment	22320	
		(56290)
NET PROFIT		<u>13430</u>

- 1 The candidate has not included the narrative for gross profit.
- 2 Discounts allowed narrative and figure are both missing.
- 3 The candidate provides an adjustment to insurance which is an incorrect calculation. It is also being added and treated as an accrual when it is actually a prepayment.
- 4 The calculation of depreciation is incorrect, as the candidate uses the reducing balance method. A further error is made by adding their adjustment onto the net book value of the furniture. Mark for (a) = 4 out of 8

* $12400 - 5600 (\times 20\%) = 3720$ $\text{to } 19600 + 3720 = 22320$

[8]

Example Candidate Response – low, continued

Examiner comments

(b) Prepare the appropriation account for Tia and Sama for the year ended 31 December 2019.

Tia and Sama
Appropriation Account for the year ended 31 December 2019

	\$	\$
Profit for the year		13 430
Interest on Capital : Tia (80000 x 5%)	4000	
Sama (40000 x 5%)	2000	
	<u>6000</u>	(8000) 5
Interest on Drawing : Tia (No Interest)	15000	
Sama (" ")	17000	(32000) 6
Salary of the Partners		6000 7
Profits share : Tia (13430 ÷ 2)	6715	
Sama (13430 ÷ 2)	6715	13430
Profit LOSS		<u>-7140</u> 8

[4]

(c) Prepare the current account for Sama for the year ended 31 December 2019. Balance the account and bring down the balance on 1 January 2020.

Tia and Sama
Sama current account

Date 2019	Details	\$	Date 2019	Details	\$
31 Dec	Drawing	17000	31 Dec	Balance b/d	1600
"	loss	67140	"	Salary	6000 9
			"	Interest on Capital	2000
			"	Balance f/d	14540
		<u>24140</u>			<u>24140</u>
2020					
Jan 1	Balance b/d	14540 11			

[4]

5 Interest is calculated correctly, but the total of \$8000 is an incorrect amount deducted from profit.

6 Interest on drawings is not part of this partnership agreement and does not appear in this statement. A further error is made as the amounts used are the actual drawings by the partners. This error affects the mark for the resulting loss as they are current account transactions.

7 Tia's salary is added instead of being deducted. The relevant name of the partner should also be identified alongside the salary narrative.

8 Final calculation of loss is incorrect due to the inclusion of actual drawings highlighted in note 6.

Mark for (b) = 1 out of 4

9 Tia's salary should not appear in Sama's current account and, therefore, it contaminates the own figure balance brought down on 1 January.

10 The loss is an own figure mark calculated in part (b). Sama's share of the loss is \$6715 meaning an incorrect figure is brought forward.

11 No mark is given for the balance brought down due to the extraneous item of Tia's salary being included incorrectly in Sama's current account. Mark for (c) = 2 out of 4

Question 4

Example Candidate Response – high	Examiner comments
<p>4 Arjun is a sole trader.</p> <p>Arjun prepared a trial balance on 31 January 2020. The totals of the <u>debit</u> and <u>credit</u> sides differed. This difference was placed in a <u>suspense account</u>.</p> <p>Arjun later discovered the following errors.</p> <p>✓ The total of the discount received column in the cash book for January, <u>\$135</u>, had been credited to the commission receivable account.</p> <p>✓ \$200 received from the sale of fittings (net book value <u>\$150</u>) had been correctly debited but had been credited to the <u>fixtures and fittings</u> account.</p> <p>✓ Cash drawings, <u>\$40</u>, had been correctly debited but had been credited to the purchases account.</p> <p>✓ The total of the analysis column for cleaning in the petty cash book, <u>\$73</u>, had been transferred to both the <u>cleaning account</u> and the <u>office expenses</u> account.</p> <p>✗ 5 The purchase of equipment, \$575, had been credited to the equipment repairs account. The bank account had been correctly credited.</p> <p>6 No entries had been made for a cheque payment for office expenses, <u>\$90</u>.</p> <p>7 A cheque, \$69, paid to <u>Simone</u> had been posted to the account of <u>Simon</u>.</p>	

Example Candidate Response – high, continued **Examiner comments**

REQUIRED

(a) Prepare journal entries to correct errors 1, 2 and 3.

Narratives are required.

Arjun
Journal

Error number	Details	Debit \$	Credit \$
1)	Commission receivable	135	
	Discount received		135
	(being correctly recording ① discount received)		
2)	Fixtures and fittings A/c	200	
	Disposal A/c		200
	(being correcting the error of fixtures & fittings)		
3)	Purchases A/c - dr	40	
	Cash a/c		40
	(being correcting the error of purchases a/c)		

① A narrative mark is awarded if it clearly indicates that an 'error' is being 'corrected'. In this case, the key word 'error' is missing. Mark for (a) = 8 out of 9

[9]

Example Candidate Response – high, continued

Examiner comments

(b) Prepare the suspense account. Include the original difference on the trial balance, as a balancing figure.

Arjun
Suspense account

Date	Details	\$	Date	Details	\$
2020 2019 Jan 1	bal b/d	1077			
Jan 31	office expenses	73	2020 Jan 31	office expenses	90
				equipment	575
				equipment repair	575
		1240			1240

2 Balance brought down is an incorrect narrative. The figure of \$1077 arises only after a trial balance is produced and a difference arises, therefore, it cannot be brought down from a previous accounting period. The correct words for this narrative are 'difference on trial balance'.
Mark for (b) = 3 out of 4

(c) Complete the following table by placing a tick (✓) in the correct column to indicate how each of the errors would affect Arjun's capital.

The first one has been completed as an example.

Ignore depreciation of non-current assets.

Error number	Increases capital	Decreases capital	No effect on capital
3	✓		
4		✓	
5		✓	
6	✓		
7			✓

3 Error five is the incorrect posting of a non-current asset to the equipment repairs account. As equipment is acquired the capital is increased. This is illustrated by applying the accounting equation: Assets – Liabilities = Capital
Mark for (c) = 3 out of 4

[4]

[4]

Example Candidate Response – high, continued	Examiner comments
<p>(d) State three advantages to Arjun of operating as a sole trader:</p> <p>1 that he is his own boss.</p> <p>2 Can make own decisions, no one to consult before making plans.</p> <p>3 & can keep all the profits.</p> <p>[3]</p> <p>[Total: 20]</p>	<p>4 Answers one and two make the same point. Arjun is his own boss and as a sole trader he can make his own decisions with no need to consult anyone else. One mark is awarded for a single point. Mark for (d) = 2 out of 3</p> <p>Total mark awarded = 16 out of 20</p>

How the candidate could have improved their answer

- (a) There was a need to be precise when describing the reason (the narrative) for making entries into the journal as they formed the basis of the audit trail when accounts were checked for validity and accuracy.
- (b) Any differences that arose upon the production of the trial balance were transferred to a suspense account. Again, it is essential that precise narratives are used to record for audit purposes where the difference has been discovered from within the accounting system. The candidate should have used 'difference on trial balance' as the narrative.
- (c) The application of the accounting equation helped to guide where errors were made and the numerical impact of the movement upon assets, liabilities both short-term and long-term could then be determined.
- (d) Making own decisions was an extension of being his own boss rather than a separate advantage. The financial reporting requirements were less complicated and did not have to be published; this could have been considered as the third advantage point.

Example Candidate Response – middle

Examiner comments

4 Arjun is a sole trader.

Arjun prepared a trial balance on 31 January 2020. The totals of the debit and credit sides differed. This difference was placed in a suspense account.

Arjun later discovered the following errors.

- 1 The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account.
~~Commission receivable A/c DR Discount received CR~~
- 2 \$200 received from the sale of fittings (net book value \$150) had been correctly debited but had been credited to the fixtures and fittings account.
~~Fixtures and fittings DR 200 Fittings CR 200~~
- 3 Cash drawings, \$40, had been correctly debited but had been credited to the purchases account.
~~Cash CR Suspense DR~~
- 4 The total of the analysis column for cleaning in the petty cash book, \$73, had been transferred to both the cleaning account and the office expenses account.
~~Office expenses CR Suspense DR~~
- 5 The purchase of equipment, \$575, had been credited to the equipment repairs account. The bank account had been correctly credited.
~~Equipment repairs DR equipment DR Suspense CR 1150~~
- 6 No-entries had been made for a cheque payment for office expenses, \$90.
~~Office expenses DR bank CR~~
- 7 A cheque, \$69, paid to Simone had been posted to the account of Simon.
~~Simon CR Simone DR~~

DR	CR
50	135
40	69
73	
575	
90	
<hr/>	<hr/>
828	204
Diff = \$624	

Example Candidate Response – middle, continued

Examiner comments

REQUIRED

(a) Prepare journal entries to correct errors 1, 2 and 3.

Narratives are required.

Arjun Journal

Error number	Details	Debit \$	Credit \$
1.	Commission Receivable	135	
	Discount Received		135
	Commission Receivable is debited to remove effect of the wrong entry.		
2.	Fixtures and fittings	200	
	Fittings		200
	Fitting have been sold.		
3.)	Suspense	40	
	Purchase Cash		40
	Cash has been		
	Withdrawn.		

[9]

- 1 The credit entry is incorrect. The key word is 'disposal' linked to fixtures and fittings.
- 2 The narrative accompanying the journals is incorrect, as there is no reference made to the correction of error relating to these transactions.
- 3 The candidate provides an incorrect narrative.
- 4 The narrative accompanying the journals is incorrect, as no reference is made to the correction of error relating to these transactions. Mark for (a) = 5 out of 9

Example Candidate Response – middle, continued

Examiner comments

(b) Prepare the suspense account. Include the original difference on the trial balance, as a balancing figure.

Arjun
Suspense account

Date	Details	\$	Date	Details	\$
	5 Balance (b/d)	624		Balance (b/d)	624
	Cash	40		Cash	40
	Office expenses	73		Equipment	575
				Equipment expenses	575
				Balance (c/d)	162
		737			737

[4]

5 The candidate gives an incorrect narrative as this is not a balance brought down, but the difference arising after the production of the trial balance. Mark for (b) = 2 out of 4

(c) Complete the following table by placing a tick (✓) in the correct column to indicate how each of the errors would affect Arjun's capital.

The first one has been completed as an example.

Ignore depreciation of non-current assets.

Error number	Increases capital	Decreases capital	No effect on capital
3	✓		
4			✓
5	✓		
6			✓
7	✓		

[4]

6 The candidate correctly identifies only error five. Mark for (c) = 1 out of 4

Example Candidate Response – middle, continued	Examiner comments
<p>(d) State three advantages to Arjun of operating as a sole trader.</p> <p>1 Sole traders have unlimited liability 7</p> <p>2 Profits don't have to be shared.</p> <p>3 Only one Decisions can be made quicker. as there is only one person [3]</p> <p style="text-align: right;">[Total: 20]</p>	<p>7 Point one is a major disadvantage of operating as a sole trader. Mark for (d) = 2 out of 3</p> <p>Total mark awarded = 10 out of 20</p>

How the candidate could have improved their answer

- (a) The candidate should have used the correct narrative for error two and error three in the journal. They should have referred to the correction of errors relating to these transactions.
- (b) This type of question relied heavily upon the candidate's knowledge of double entry book-keeping, and the ability to write concise narratives was required. The wrong narratives were used and only two of the entries were correct.
- (c) The errors that would have caused a difference in the trial balance were either single entry, double entries posted as both debits or credits, or entries of unequal amounts. Only errors four and five caused these differences and the ability to identify appropriate transactions would have allowed the suspense account to be eliminated effectively.
Each of the errors identified would have had an impact upon the profit of the business and once this had been identified as an increase or decrease, then the effect upon capital was determined.
- (d) The candidate should have given the third advantage. The first advantage given was actually a disadvantage of operating as a sole trader.

Example Candidate Response – low	Examiner comments
<p>4. Arjun is a sole trader.</p> <p>Arjun prepared a trial balance on 31 January 2020. The totals of the debit and credit sides differed. This difference was placed in a suspense account.</p> <p>Arjun later discovered the following errors.</p> <ul style="list-style-type: none"> ✓ 1 The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account. ✓ 2 \$200 received from the sale of fittings (net book value \$150) had been correctly debited but had been credited to the fixtures and fittings account. ⊖ 3 Cash drawings, \$40, had been correctly debited but had been credited to the purchases account. ⊖ 4 The total of the analysis column for cleaning in the petty cash book, \$73, had been transferred to both the cleaning account and the office expenses account. ⊖ 5 The purchase of equipment, \$575, had been credited to the equipment repairs account. The bank account had been correctly credited. 6 No entries had been made for a cheque payment for office expenses, \$90. ✓ 7 A cheque, \$69, paid to Simone had been posted to the account of Simon. <p style="text-align: center;">cash drawing \$40 cash cr drawing dr</p> <p style="text-align: center;">P → 70</p>	

Example Candidate Response – low, continued

Examiner comments

REQUIRED

(a) Prepare journal entries to correct errors 1, 2 and 3.

Narratives are required.

Arjun
Journal

Error number	Details	Debit \$	Credit \$
3	Simon Cash	40	
	Simon purchases		40
3	equipment purchases	335	
	purchases equipment	335	
4	office expenses		75
	no entry		
1	Discount received	135	
	commission receivable		135
2	Sales	200	
	fixtures & fitting account		200

1

1 The candidate reverses all transactions and omits the relevant narratives that support why the journal entries are being entered.
Mark for (a) = 0 out of 9

[9]

Example Candidate Response – low, continued

Examiner comments

(b) Prepare the suspense account. Include the original difference on the trial balance, as a balancing figure.

Arjun
Suspense account

Date	Details	\$	Date	Details	\$
31 Jan	Office expenses	73	31 Jan	Office expenses	90

[4]

(c) Complete the following table by placing a tick (✓) in the correct column to indicate how each of the errors would affect Arjun's capital.

The first one has been completed as an example.

Ignore depreciation of non-current assets.

Error number	Increases capital	Decreases capital	No effect on capital
3	✓		
4			✓
5		✓	
6	✓		
7			✓

[4]

2 The candidate completely omits payment of office expenses from the books of account; therefore, this type of error does not create a difference in the trial balance. In practice, this omission is entered into the ledger accounts and does not appear in the journal or the suspense account.

3 Suspense account postings are required where entries posted are of unequal amounts. In this question, error numbers four and five are responsible for the overall difference arising when drawing up the trial balance.
Mark for (b) = 1 out of 4

4 The candidate's error means that the expense is being charged twice, causing profit to decrease, leading to a reduction in capital.

5 This error of crediting equipment repairs means that expenses are reduced. This leads to increased profits and therefore an increase in capital.
Mark for (c) = 2 out of 4

Example Candidate Response – low, continued	Examiner comments
<p>(d) State three advantages to Arjun of operating as a sole trader.</p> <p>1 Profits earned by the business don't need to be shared</p> <p>2 No disagreements while making decisions. Can make all decisions.</p> <p>3 Can work according his preference. Can decide the working hours. [3]</p> <p>[Total: 20]</p>	<p>6 Point number three is a repetition of point two 'can make all decisions'. Therefore, only 1 mark for both points is given. Mark for (d) = 2 out of 3</p> <p>Total mark awarded = 5 out of 20</p>

How the candidate could have improved their answer

- **(a)** The candidate was able to identify the ledger accounts that needed to be adjusted but, unfortunately, the adjustments made in the journal were completely reversed and the impact compounded the existing errors that had been made. It often helps to draw up 'T' accounts as workings and by applying double-entry transactions the entries are more easily identified for writing up the journal. There was also a clear instruction to support journal entries with a narrative that explained the reason for the entry. The opportunity existed for a further 3 marks, irrespective of whether the account narratives were correct; however, all the supporting narratives were omitted from this answer.
- **(b)** The errors that would have caused differences in the trial balance needed to be identified, such as two debit entries for office expenses and cleaning being made of \$73 (error four) and two credit entries for the purchase of equipment (error five). Once the errors had been identified and entered into the suspense account, the difference that had arisen upon the trial balance could have been determined.
- **(c)** This required a three-stage thought process to be followed as a result from the error made. Firstly, was there an impact upon profit? If yes, was it an increase or decrease? Finally, the effect upon capital could have been identified as profits belonging to the owner and capital would change accordingly. Both errors four and five needed to have applied the same logical approach to arrive at the correct answer.

Common mistakes candidates made in this question

- Candidates sometimes identified incorrect accounts when entering up the journal.
- In some cases, candidates omitted or provided inappropriate narratives to support the reasons for making the journal entries.
- Some candidates included entries in the suspense account that did not resolve a difference from the trial balance.
- Incorrect outcomes were deduced from the errors made to profits and ultimately capital.
- Repetition of 'own boss' and complete control of the business as advantages of being a sole trader.

Question 5

Example Candidate Response – high

Examiner comments

5 Adit provided the following information.

	\$
For the year to 31 January 2020	
Profit for the year	27 900
Revenue	186 000
Credit purchases	93 075

At 31 January 2020	
Non-current assets at book value	43 700
Inventory	9 340
Trade receivables	14 010
Trade payables	9 435
Bank overdraft	2 240
Bank loan (repayable 2023)	6 000

All goods are sold on credit terms.

REQUIRED

(a) Calculate the following ratios. Show your workings.

profit margin	
workings	answer
$\frac{\text{Net profit}}{\text{Revenue}} \times 100$ $= \frac{27900}{186000} \times 100$	15 %

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade Payables}}{\text{Credit purchases}} \times 365$ $= \frac{9435}{93075} \times 365$	37 days

Example Candidate Response – high, continued

Examiner comments

trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade Receivables}}{\text{credit sales}} \times 365$ $= \frac{14010}{186000} \times 365$	27 days ¹

¹ The workings are correct, but the answer is not rounded up to the nearest day of 28 days. Mark for (a) = 7 out of 8

liquid ratio	
workings	answer
$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$ $= \frac{9340 + 14010 - 9340}{9485 + 2240}$ $= 14010 : 11675$	1.2 : 1

[8]

The bank overdraft limit is \$2500.

The trade payables turnover for the year to 31 January 2019 was 35 days.

REQUIRED

(b) Advise Adit whether or not he should delay paying trade payables in order to reduce the bank overdraft. Justify your answer by considering the effect on both the bank balance and the trade payables.

Delay paying trade payables may increase Adit's bank balance, which can be used for other purposes, within Adit's business. But, the trade payables may charge interest on amount due, this may increase Adit's bank overdraft as more amount will need to be paid out. In addition, trade payables may refuse further supplies until the amount due is paid, lowering sales. Hence, Adit shouldn't delay paying trade payables to reduce bank overdraft. [5]

² 'Trade payables may charge interest' is a clear disadvantage of delaying payment to suppliers.

³ A second disadvantage of delaying payment to trade payables is the refusal to supply further goods. The candidate gives no significant comment regarding the potential impact on the bank balance. Therefore, no mark is awarded for the recommendation as it stands. Mark for (b) = 2 out of 5

Example Candidate Response – high, continued

Examiner comments

(c) Suggest three other actions which Adit could take to reduce the bank overdraft.

1. Ask debtors (credit customers) to pay more quickly.

2. Selling surplus non-current assets.

3. Selling surplus inventory. 4

[3]

(d) (i) State two reasons why Adit should produce an annual income statement.

1. To show profit/loss. 5

2. To assess past performance. 6

[2]

(ii) State two reasons why Adit should apply the money measurement principle.

1. To find accurate results, as it suggests that only information that can be expressed in terms of money can be recorded. 6

2. To analyse the ^{correct} result of a decision, for instance, increasing prices. 7

[2]

[Total: 20]

4 All three points made by the candidate are well-established methods of reducing a bank overdraft. However, it may be unrealistic to ask credit customers to pay more quickly with no offer of some form of cash discount. Mark for (c) = 3 out of 3

5 Both points provided by the candidate are correct reasons for businesses to produce an annual income statement. Mark for (d)(i) = 2 out of 2

6 The candidate gives a clear reason for applying the principle and it implies there is no element of subjectivity involved.

7 The candidate's point is too vague as it mentions analysing the results of increasing prices. The key words are, 'making comparisons year on year', or 'making comparisons with other businesses'. Mark for (d)(ii) = 1 out of 2

Total mark awarded = 15 out of 20

How the candidate could have improved their answer

- (a) The candidate should have rounded up the trade receivables turnover. There was a specific instruction with the trade receivables turnover ratio to round upwards and this was the accepted rule for this type of ratio, as opposed to applying a strict mathematical rounding to the calculation. With any ratio calculations, it is important to look carefully at the required format for the answer.
- (b) The candidate should have recognised possible problems arising with the bank. Where two possible courses of action are considered, it is necessary to deliver a balanced approach so that the advantages or disadvantages are weighed against one another and any recommendation are supported accordingly.
- (d)(ii) The second point that ought to have been considered related to the importance of removing subjectivity from valuing the resources and liabilities of all businesses. Therefore, the application of the money measurement principle was fundamental to recording all financial transactions.

Example Candidate Response – middle

Examiner comments

5 Adit provided the following information.

For the year to 31 January 2020	\$
Profit for the year	27 900
Revenue	186 000
Credit purchases	93 075

At 31 January 2020	
Non-current assets at book value	43 700
Inventory	9 340
Trade receivables	14 010
Trade payables	9 435
Bank overdraft	2 240
Bank loan (repayable 2023)	6 000

All goods are sold on credit terms.

REQUIRED

(a) Calculate the following ratios: Show your workings.

profit margin	
workings	answer
$\text{profit margin} = \frac{\text{net profit}}{\text{Revenue}} \times 100$ $= \frac{27900}{186000} \times 100$	15 %

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\text{Trade payables turnover} = \frac{\text{Trade payables}}{\text{Credit purchases}} \times \frac{365}{1}$ $= \frac{9435}{93075} \times 365$	37 days

Example Candidate Response – middle, continued

Examiner comments

trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$= \frac{\text{trade receivables}}{\text{Credit Sales}} \times 365$ $= \frac{14010}{186,000} \times 365$	28 days

liquid ratio	
workings	answer
$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$ $= 23350 : 9435$	2.47 = 1 1

[8]

The bank overdraft limit is \$2500.

The trade payables turnover for the year to 31 January 2019 was 35 days.

REQUIRED

(b) Advise Adit whether or not he should delay paying trade payables in order to reduce the bank overdraft. Justify your answer by considering the effect on both the bank balance and the trade payables.

He should not as delaying trade payables because :- 2

1) Can hamper relations with suppliers 3

2) Cannot get cash discounts 3

3) Might also affect reputation in market 3

4) Supplier might deny giving you goods 4

5) Can pay overdraft by other means like selling assets etc. 5

..... [5]

1 The candidate's calculation includes inventory within the current assets and the bank overdraft should be included in the current liabilities. Mark for (a) = 6 out of 8

2 The recommendation mark is not awarded, as only trade payables points receive marks and there are no correct comments made on the bank balance.

3 Duplication of point one, therefore no mark is awarded.

4 The candidate gives a correct point. However, as marks are given for points one and two, there is no further mark available.

5 This answer by the candidate is not realistic as surplus assets might not be available. Mark for (b) = 2 out of 5

Example Candidate Response – middle, continued	Examiner comments
<p>(c) Suggest three other actions which Adit could take to reduce the bank overdraft.</p> <p>1. Could sell unnecessary not useful non-current assets for cash which can be used to pay overdraft</p> <p>2. Can take a long term loan to pay the overdraft</p> <p>3. Could decrease the limit he gives his debtors to pay him</p> <p style="text-align: right;">6 [3]</p>	<p>6 All points are acceptable actions to help reduce the bank overdraft. Mark for (c) = 3 out of 3</p>
<p>(d) (i) State two reasons why Adit should produce an annual income statement.</p> <p>1. To calculate the business progress by comparing it with other firms or company's own previous performance</p> <p>2. To calculate company's assets and liabilities at certain dates.</p> <p style="text-align: right;">7 [2]</p>	<p>7 The statement of financial position shows the value of assets and liabilities, not the income statement. Mark for (d)(i) = 1 out of 2</p>
<p>(ii) State two reasons why Adit should apply the money measurement principle.</p> <p>1. money measurement takes in account the real value in form of money.</p> <p>2.</p> <p style="text-align: right;">8 [2]</p> <p style="text-align: right;">[Total: 20]</p>	<p>8 The candidate's statement is vague and mentions the 'real value in form of money'; the answer needs to specify that it is understood as a unit of measure, or transactions are recorded in monetary terms. Mark for (d)(ii) = 0 out of 2</p> <p>Total mark awarded = 12 out of 20</p>

How the candidate could have improved their answer

- (a) The calculations should not have included inventory in current assets and the bank overdraft should have been included in the current liabilities.
- (b) This answer required a balanced look at delaying payment to trade payables in order to reduce the bank overdraft. Points made were mainly focused on the impact upon trade payables. More emphasis needed to be placed upon the bank in order to access further marks and to gain a supported recommendation mark.
- (d)(i) This question asked solely for the reasons for producing an income statement. The answer suggested that the candidate assumed the question referred to financial statements which would then have included reference to a statement of financial position.
- (d)(ii) Candidates required a clear understanding of the principle of money measurement. This answer was a restatement of the wording given in the question and lacked clarity of understanding of the principle or any reasons why it was important when any financial accounting records were produced.

Example Candidate Response – low

Examiner comments

5 Adit provided the following information.

For the year to 31 January 2020	\$
Profit for the year	27900
Revenue	186000
Credit purchases	93075

At 31 January 2020	
Non-current assets at book value	43700
Inventory CA	9340
Trade receivables CA	14010
Trade payables CL	9435
Bank overdraft CL	2240
Bank loan (repayable 2023)	6000

All goods are sold on credit terms.

REQUIRED

(a) Calculate the following ratios. Show your workings.

profit margin	
workings	answer
$\frac{27900}{186000} \times 100 = 15\%$	15%

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{9435}{93075} \times 365 = 37 \text{ days}$	37 days

Example Candidate Response – low, continued

Examiner comments

trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{14010}{93075} \times 365 = 54.9 \sim 55 \text{ days}$	95 days ¹

1 The candidate's calculation is incorrect, as the denominator represents credit purchases instead of revenue.

liquid ratio	
workings	answer
$\frac{\text{Current asset} - \text{Inventory} ; \text{Current liability}}{(14010 - 9340) ; 11675}$ 0.4:1	0.4:1 ²

2 The candidate's calculation is incorrect. The candidate deducts inventory from trade receivables. Mark for (a) = 4 out of 8

[8]

The bank overdraft limit is \$2500.

The trade payables turnover for the year to 31 January 2019 was 35 days.

REQUIRED

(b) Advise Adit whether or not he should delay paying trade payables in order to reduce the bank overdraft. Justify your answer by considering the effect on both the bank balance and the trade payables.

Adit should not delay paying to his trade payables because the interest charges ³ could be high which could increase the cost of product. Adit is giving his ⁴ trade payables 2 days later which could increase the amount of bank overdraft. Trade payables turnover is 37 days whereas adit has to pay in 35 days.

3 This is a correct comment for one mark.

4 This is an incorrect statement. The candidate is talking about Adit's trade payables paying two days later, and appears to be confusing this with trade receivables. Mark for (b) = 1 out of 5

[5]

Example Candidate Response – low, continued

Examiner comments

(c) Suggest three other actions which Adit could take to reduce the bank overdraft.

1. Increase Capital
 2. Deposit money into bank 5
 3. Decrease trade payable period 6
- [3]

(d) (i) State two reasons why Adit should produce an annual income statement.

1. To calculate profit and loss
 2. To calculate its expenses during the year 7
- [2]

(ii) State two reasons why Adit should apply the money measurement principle.

1. To record all transaction of expenses in terms of cash
 2. To check the transactions done by cash 8
- [2]

[Total: 20]

5 This is a repeat of point one, as the increase in capital is paid into the bank in order to reduce the overdraft.

6 Decreasing the trade payable period increases the bank overdraft and this confirms that the candidate is confusing trade payables with trade receivables, as seen in their answer to part (b). Mark for (c) = 1 out of 3

7 The calculation for expenses is carried out in the ledger accounts, not the income statement. The statement reviews the level of expenses and revenues so that management action is taken. Mark for (d)(i) = 1 out of 2

8 This process is referring to the checking of cash, such as petty cash and bank monitoring. The checking of resources in itself is not a reason for applying the money measurement principle. Mark for (d)(ii) = 1 out of 2

Total mark awarded = 8 out of 20

How the candidate could have improved their answer

- **(a)** The candidate should have used credit purchases as the denominator for calculating trade receivable turnover. In calculating the liquid ratio, the candidate should not have deducted inventory from trade receivables. Key ratios required appropriate knowledge of the formula used in the calculation and it is also critical that terminology such as 'trade payables' and 'trade receivables' are understood. The mixing up of component terms that make up current assets and liabilities lead to the incorrect calculation of ratios and any subsequent interpretative comments drawn from them.
- **(c)** It was important not to repeat points, such as 'increase capital' and 'deposit extra cash into the bank'. The candidate should have been able to test their answer by asking themselves the question 'where has the cash paid into the bank come from'? Possible answers such as 'to obtain a loan' or 'convert into a partnership' would have resulted in potential further marks.
- **(d)(i)** The candidate could have mentioned the statement reviews of the level of expenses and revenues so that management could have taken action.
- **(d)(ii)** The candidate should have given the second valid reason; it would have been easier to make comparisons year on year or with other businesses.

Common mistakes candidates made in this question

- Some candidates used components incorrectly within the key ratio calculations.
- Candidates often used confusing terminology such as trade payables and receivables.
- Uncertainty of the elements that were included in current assets and current liabilities.
- Many candidates failed to balance answers that related to both options, such as paying trade payables and increasing the bank overdraft. A balanced answer would have supported any recommendation comment that had been made.
- Repeat points were made and answers lacked substance in some cases, such as the reduction in the overdraft could have been achieved by depositing cash into the bank.

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