

# ACCOUNTING

**Paper 0985/12**  
**Paper 12**

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>D</b>	21	<b>C</b>
2	<b>C</b>	22	<b>C</b>
3	<b>B</b>	23	<b>D</b>
4	<b>B</b>	24	<b>C</b>
5	<b>C</b>	25	<b>B</b>
6	<b>A</b>	26	<b>D</b>
7	<b>B</b>	27	<b>D</b>
8	<b>D</b>	28	<b>C</b>
9	<b>A</b>	29	<b>D</b>
10	<b>A</b>	30	<b>C</b>
11	<b>D</b>	31	<b>A</b>
12	<b>A</b>	32	<b>D</b>
13	<b>B</b>	33	<b>C</b>
14	<b>A</b>	34	<b>B</b>
15	<b>A</b>	35	<b>B</b>
16	<b>B</b>		
17	<b>B</b>		
18	<b>A</b>		
19	<b>A</b>		
20	<b>C</b>		

## **Key messages**

Candidates must have a thorough knowledge and understanding of double entry book-keeping and be familiar with all the topics on the syllabus.

It is important that candidates recognise the importance of reading an item very carefully and making sure they know exactly what is required before attempting to select the Key.

## **General comments**

The majority of candidates clearly had a good understanding of double entry book-keeping.

Four items proved to be much easier than anticipated, and seven items proved to be easier than anticipated.

### **Comments on specific questions**

#### **Question 3**

Most of the candidates selected the Key, **B**. Some candidates treated the loan as a liability and incorrectly selected Option **D** as the Key. Hussein made a loan to another individual so this represents an amount due to Hussein. Therefore, it is an asset to him not a liability.

#### **Question 11**

Over half of the candidates did not fully appreciate how the two errors affected the profit for the year. If rent prepaid is understated then the amount charged as an expense is overstated, so the profit was understated. If closing inventory is understated then the cost of sales is overstated which results in the gross profit and the profit for the year being understated.

#### **Question 12**

Most candidates had difficulty with this item. The bank statement showed a positive balance. The two items not entered in the cash book both involved money going into the trader's bank account. Before updating, the cash book would show a smaller balance than that on the bank statement.

#### **Question 14**

This proved to be challenging for some candidates. Information about returns to credit suppliers would be obtained from the purchases returns journal. Information about refunds from credit suppliers would be obtained from the cash book. Irrecoverable debts written off do not affect the purchases ledger. Contra entries with the sales ledger would not appear in any of the other books of prime entry so would be recorded in the general journal.

#### **Question 21**

The majority of candidates correctly calculated that there was a prepayment of \$400. Some did not appreciate that this was rent receivable paid in advance and not rent payable. Where a tenant pays rent in advance it is a current liability as the business has received money for which a service has not yet been provided.

#### **Question 25**

The opening and closing cash balances were known and the trader wished to calculate his cash sales. To do this he would need to include in the calculation any items which affected the cash. In this case it was cash banked, the cash drawings and the cash expenses. Cash discount would not affect the amount of cash.

#### **Question 29**

The incorrect selection of Options **A** and **C** by a significant number of candidates indicates that they did not appreciate the significance of the gross margin. The gross margin represents the gross profit as a percentage of the revenue. Changes to items appearing in the profit and loss section of an income statement will not affect the gross margin. Reducing the rate of trade discount allowed to customers will mean that the revenue increases so the gross margin will improve.

#### **Question 30**

A number of candidates did not appreciate that if 1500 units were sold the cost of sales would be \$6750 (1500 units  $\times$  \$4.50). The gross profit was \$5250 (\$5500 – \$250). The total value of sales was \$12 000 (\$6750 + \$5250).

**Question 31**

The return on capital employed is the profit for the year expressed as a percentage of capital employed. Ordinary share dividend paid does not affect the profit for the year, but it does reduce retained earnings. If the amount of retained earnings decreases the capital employed also decreases. If the capital employed decreases and the profit remains the same then return on capital employed will increase.

**Question 35**

Some candidates found this item difficult. The word 'not' was emboldened in the stem to make candidates aware that this was a negative item. Almost half of the candidates incorrectly selected Option **D**. One of the main aims of international accounting standards is to reduce the variety of accounting practices worldwide so this answer is definitely a distractor and not the Key. Of the four options **A**, **C** and **D** are all aims of international accounting standards. The Key was **B**.



# ACCOUNTING

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Paper 0985/22  
Paper 22

## Key messages

This is the first year of assessment of the new syllabus. Candidates were required to answer five set questions of 20 marks each. Increased emphasis had also been placed upon discussion style questions that used accounting information to arrive at a recommended course of business action.

Candidate responses have generally been very encouraging and this broader base of knowledge and skill requirement has been linked effectively to the understanding and production of financial systems and accounting statements.

## General comments

Candidates' performance has been reasonable. Strong candidate responses demonstrated their understanding of double entry bookkeeping. There were many examples of well-presented financial statements for limited companies in **Question 3**. This was in contrast to **Question 2** on non-trading organisations, where many candidates had only a superficial level of understanding of the processes involved.

The calculation of ratios in **Question 4** were very well answered, but this was often not accompanied with an appreciation of the reasons behind the changes in them.

There were three questions that required advantages and disadvantages to be considered culminating in a resulting recommendation. Some excellent answers covered both aspects of the question scenario but unfortunately came to no clear recommendation with which to conclude their decision.

**Question 5** looked at correcting errors and how to resolve them using a suspense account. This proved to be challenging area for candidates.

## Comments on specific questions

### Question 1

- (a) The question focused upon business documentation and books of prime entry in which the source documents would be listed. Most candidates recognised the appropriate book of prime entry but found documents required for banking cash sales and recording credit transfers such as bank statements and paying-in slips for verification purposes as difficult.
- (b) This question required the posting of entries into a sales ledger account. It is important to recognise immediately which side of the business (either sales or purchase ledger) the account is located and then to apply double entry rules for the relevant postings. Stronger responses listed the date, details and amounts accurately. Weaker responses often opened with balances on the wrong side, discounts allowed calculated incorrectly and the final balance on the account often being incorrect due to inclusion of the cash sales figure of \$412.
- (c) This required candidates to identify the section of the statement of financial position where a sales ledger account balance would appear. The majority of answers were correct but where candidates took a wrong turn in **part (a)** an own figure mark could still be achieved.
- (d) This required a discussion of one advantage and one disadvantage of reducing the level of cash discount available to credit customers. This was very well answered with increased profits/cash

flows being regularly identified versus possible loss of customers. Weaker answers just referred to increased sales and expenses and did not consider the possibility that customers may choose not to take the reduced discount option.

- (e) The final part of this question considered the options of whether or not to form a limited company. Appropriate advantages and disadvantages were mentioned and this formed a sound basis upon which to go forward and make a recommendation. This style of question needs a clear recommendation and many candidates often omitted this aspect or left their answer as an academic discussion and did not receive the fifth mark.

There were some answers that confused limited and unlimited liability to sole traders and limited companies and this difference should be abundantly clear with the ability to discuss the benefits and drawbacks accordingly.

### Question 2

- (a) BH Sports club is a non-trading organisation and the steps to produce financial statements required are specified clearly in the syllabus.

To produce the subscriptions account, the same technique is applied as used in control account preparation. Opening and closing subscriptions have to be entered correctly along with any receipts from both cash and cheques/direct transfers through the receipts and payments account. The balancing figure is then transferred to the income and expenditure account. This figure was often incorrectly identified as income and expenditure which cannot be applied to a non-trading organisation.

- (b) The second stage is to analyse the expenses and revenues generated from operating a cafe. This represents a distinct income stream for a club that is transferred as a separate figure into the final income and expenditure account. Individual entries for the cafe should not be made in **part (c)** and this was a very common error.
- (c) The income and expenditure account was consequently not well attempted, with adjustments for insurance being ignored and depreciation, when calculated, needed to identify specific non-current asset narratives such as sports hall or sports equipment. Members need to be aware if equipment requires replacing and possible funding implications for the future.
- (d)(i) Many candidates expressed incorrectly that the accumulated fund represented the capital of the organisation. There are no shares for a non-trading organisation, only excesses of income built up through subscriptions and donations beginning from when the club commenced.
- (ii) The majority of candidates could identify that a surplus would increase an accumulated fund but too often this comment was not accompanied by their own figure calculation from **part (c)**.

### Question 3

- (a) This was a relatively easy introduction to limited company accounts. The cost of sales information was available and the only additional complication was to include carriage inwards as a cost that is necessary to bring it to its present location and therefore recorded within the cost of sales.
- (b) The calculation of the revised provision for doubtful debts is a standard adjustment required for the income statement. A common error was to omit a deduction of the irrecoverable debt of \$500 from the trade receivables and this resulted in the new provision being calculated incorrectly on \$80500. Another common error was to add the opening and closing provision together or to submit the closing provision to the income statement and this would be an error in principle. Only the difference between the opening and closing provision is taken to the income statement.
- (c) Information from **parts (a)** and **(b)** should have been fed into this answer to provide an income statement that also required a range of expenditure adjustments including accruals, prepayments and depreciation. The most common errors were confusing accruals and prepayments and omitting to adjust debenture interest with \$700 as an accrued expense.
- (d) The table here required candidates to indicate the effect that a range of transactions would have upon equity. This was assessing an awareness of the movements that are formally recorded in a



statement of changes in equity for a limited company. This was generally very well answered although the last two 'no effect' answers presented some problems for the weaker candidates.

#### Question 4

- (a) This was a straight forward calculation of profit that was answered correctly by most candidates.
- (b) This required the calculation of three standard ratios: profit margin, gross margin and return on capital employed. As the profit had been brought forward from **part (a)** the ratios were very often calculated correctly indicating regular practice and familiarity with this area of the syllabus.
- (c) The question required candidates to compare and produce comments on the performance of the sole trader over the two year period based on the ratios calculated in **part (b)**. Many candidates found this a difficult exercise and could only identify that profit had increased relative to the previous year or could only report that the key ratios had increased or decreased. It is critical to identify whether changes are improvements or deteriorations when compared to previous years. This will then lead to potential reasons for the changes, for example a reduced profit margin due to an increase in/poor control of expenses. It is important to link the potential reasons to specific ratios within the written answer, as a list of reasons attached at the end does not indicate the implication behind the ratios has been fully understood by the candidate.
- (d) The scenario posed in this question required a decision whether to invest further owner funds or obtain a two-year bank loan necessary in order to reduce a decreasing bank balance. Advantages and disadvantages were regularly identified and comments made such as interest payable on loans but not on private funds contributed both gained marks. Some candidates however indicated that endless funds could be borrowed from a bank, this was too simplistic and highlights the need for calculating key ratios and producing financial statements before a bank would consider advancing a loan. Strong responses demonstrated familiarity with terms such as security and collateral may be required in order to secure a loan and recognised this as a potential disadvantage. Some candidates did not gain the final mark as they omitted to make a clear recommendation.
- (e) This was a popular question and the mark was readily obtained. A common answer for the interested party was the bank along with the government to ensure that taxes were assessed and paid. The question did exclude any answers that referred to employees, even so managers were a common incorrect answer.

#### Question 5

- (a) The question required the preparation of a suspense account after considering seven errors following the extraction of a trial balance. For many candidates this represented a real challenge.
- Candidates should understand that not all errors will require a posting into the suspense account. Only single entries or differing amounts in the double entry will cause an imbalance in the trial balance. Consequently only errors 1, 4, 5 and 7 needed an entry to be passed through the suspense account that would enable the difference of \$200 to be eliminated. Many candidates were unfamiliar with this procedure or included every error within the suspense account.
- (b) Error 2 was quickly identified correctly. However, only few candidates identified error 4 correctly and allowances were made for an incorrect figure in one account.
- (c) Candidates performed well on this. Errors 5 and 7 presented problems for the weaker candidates.
- (d) The final part of this question required a consideration on whether Razia should sell on cash terms only. Candidates could often provide two good advantages such as the receipt of cash immediately and no irrecoverable bad debts but this was not matched by disadvantages with only one being popular such as the loss of customers/sales reduction.

As with all the recommendation questions, a balanced answer is required so that one advantage and one disadvantage must be identified in order to gain the recommendation mark. The recommendation point must also be clearly evident from the answer.