

ACCOUNTING

Paper 0985/12
Multiple Choice

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

General comments

Candidates should be familiar with all topics on the syllabus and possess a thorough knowledge of accounting. Candidates should be prepared to answer questions which involve calculations and those which do not.

To have a clear understanding of what is required, it is important for candidates to read through each item (question) very carefully before selecting an option on the answer sheet.

Many candidates possessed a good understanding of double-entry bookkeeping and were able to select the correct key to many items on the paper.

Comments on specific questions

Question 1

Many candidates managed to answer this question correctly and choose the correct option, which was **B**. This question, which the candidates found relatively straightforward, required candidates to identify examples of book-keeping.

Question 2

This question provided a list of assets and liabilities, and required candidates to calculate the figure for capital. The majority of candidates chose the correct option for **Question 2**, which was **A**.

Question 3

This question covered double entry book-keeping. It was fairly straightforward, and most candidates answered correctly. The correct answer was **C**.

Question 6

Candidates were provided with the list price of goods, the amount paid for these goods, and the rate of cash discount. They were required to calculate the amount of trade discount. In order to do this, candidates had to calculate the invoice price (which is $100/95 \times 760 = 800$). The trade discount is therefore $(1000 - 800 =) 200$. The correct answer was **C**. Many candidates found this question challenging. Notably some candidates incorrectly calculated the cash discount as 5% of the list price, i.e. 50 and therefore used an invoice price of $(760 + 50 =) 810$.

Question 7

Candidates generally performed well on this question, choosing the correct option which was **D**. However, some candidates did not seem to understand what it means when the totals of a trial balance agree.

Question 11

This question asked candidates to identify the effect of correcting an error in the posting of a cheque received from a trade receivable. When the cheque is correctly posted, trade receivables would be reduced. The correct answer was **A**. A significant number of candidates did not identify that both trade receivables and trade payables would be reduced. Trade payables would have been increased initially, so the correction would decrease trade payables.

Question 12

This question required candidates to calculate the bank statement balance. They were provided with the bank balance in the cash book and two timing differences. Many candidates correctly identified that the answer was **A**. However, many other candidates found this challenging and selected an incorrect option. Often the incorrect option selected was **B**: \$130 debit (which was how 130 credit on the bank statement would be shown in the cash book).

Question 14

This question covered the topic of control accounts. Candidates were asked to identify the source of information for amounts received from credit customers when a sales ledger control account is being prepared. Many candidates identified that this information would come from the cash book. The correct answer was **B**. However, a significant number of candidates did not seem to know that the sales ledger accounts are not a source of information for preparing a sales ledger control account.

Question 15

Question 15 asked candidates to calculate the revised profit figure after correcting an error. While most candidates selected the correct option, which was **B**, some candidates did not seem to recognise that a debit entry in the purchases account would mean a reduction in profit.

Question 20

Question 20 required candidates to apply the balance sheet equation to calculate the figure for current assets. The correct answer was **C**. This question was fairly straightforward, and most candidates answered correctly.

Question 21

Most candidates answered this question correctly. The correct answer was **B**. The amount to be charged to the income statement was $(4900 + 1800 - 800 =) 5900$. The most common error was to deduct both the 1800 and the 800 from the amount paid of 4900.

Question 29

This question covered the topic of cash discount. It required candidates to identify how a trader could make sure that she was able to receive the cash discount offered to her. The correct answer was **B**. By keeping full accounting records of her transactions with suppliers, the trader can track when payments should be made ensuring that the terms of the cash discount are met. Some candidates did not identify that discount being offered to the trader must be discount received and would therefore relate to invoices received rather than invoices issued. Other candidates confused cash discount with trade discount.

Question 32

Candidates found this question challenging. They were required to calculate how much a business owner needs to pay into the bank account so that the current ratio becomes 2 : 1. Current assets are 6000 so current liabilities need to be 3000. As trade payables are 1100, the bank overdraft needs to be 1900. So, the owner needs to pay in 1200 to the bank account to reduce the overdraft from 3100 to 1900. The correct answer was **B**. While there were many correct answers, a significant number of candidates applied the ratio incorrectly, as they seemed to think that the current liabilities should be 2000, i.e. $\frac{1}{3}$ of current assets.

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Key messages

Discussion type answers that attract up to five marks each continue to see improvement upon previous examinations. This is encouraging but candidates must look carefully at the scenario posed as they are not standard questions. The differences between offering a trade discount or a cash discount (**Question 3d**) focused on regular customers, not **all** customers. Too many candidates would consider the general merits of offering trade discounts to all customers. Read the question carefully to determine exactly what the business solution requires.

General comments

The sales journal, sales returns journal, customer account and the sales ledger control account are all interrelated within an accounting system. Candidates need to be able record entries in all of them and practice exercises that fully integrate the bookkeeping as required for example in **Question 1**.

Comments on specific questions

Section A

Question 1

- (a) The first activity for recording accounting documentation is via the books of prime entry. In this scenario it required sales invoices and sales returns to be entered into the correct journals. Entries for Bwana were usually correctly entered, Naomi was invariably incorrect due to the need to deduct trade discounts of \$41 and \$23 before entering into the sales journal. Trade discount does not enter the accounting system. The narrative for transferring the total of the journal should be an account name such as the sales account. Often there was a description or a missing date or both.
- (b) Sales returns follow the same approach with trade discount needing to be deducted from Naomi's entry with the incorrect result of \$20 regularly seen. Errors regarding narratives again applied here.
- (c) The sales and return entries for Naomi needed to be transferred into her personal account. Sales were often labelled as purchases, with figures often reversed and a balance brought forward of \$450 was either omitted or appeared as an opening credit balance. Similarly, discount allowed was often omitted or shown as discount received as a debit entry. The transfer of sales (and purchases information if that aspect of the accounting system is examined) require regular practice and the links to the appropriate transfer of information reinforced upon candidates.
- (d) The sales ledger control account is a checking mechanism that brings together all of the balances that will impact upon the total of the sales ledger account balances. Total entries were required from the journals, a common error was to post all the invoices and returns credit notes into this account. This would be unrealistic and an immense waste of time as entries are being duplicated. The entries for bank payments were often not totalled and discount allowed, and irrecoverable debt was omitted.

The integration of information linked all parts of this question and need regular practice. For many candidates this question was challenging and were often unable to achieve more than single figure marks.

Question 2

- (a) The candidates were required to produce a manufacturing account with the usual expected range of adjustments to the factory overhead expenses. The standard of answers was mixed and whilst most were aware of the different sections involved, there were many occasions when items were in the incorrect part of the statement or should not have been included at all. Common examples of errors were to omit direct wages (machine operators) from prime cost or to include Supervisors' wages instead of in the overheads section. The delivery vehicle driver is an expense that is not related to manufacturing and will be charged to the income statement. In addition to these fundamental errors, the poor labelling of items such as raw materials consumed and depreciation needed a reference to the specific non-current asset being charged within the statement. The work-in-progress adjustment should be shown separately following the totalling of prime cost and factory overheads and not included within the overheads section.
- (b) This question asked for an extract showing the current assets section of a statement of financial position for Sara's manufacturing business. There were two aspects that were often overlooked. Firstly, each category of inventory should be identified separately. Many candidates only included finished goods. Secondly, the prepayment for insurance from **part (a)** required inclusion with the other current assets of trade receivables and cash at bank and this was frequently omitted.
- (c) Many principles were given here. The qualities such as the efficiency of the staff are not recognised within the financial statements and therefore 'money measurement' is being complied with.
- (d) The decision to supply a drama school with costumes at the cost of an increased credit payment period was an opportunity to gain several marks for the majority of candidates. Advantages were identified regularly but disadvantages were too focused upon irrecoverable debts instead of the risk of irrecoverable debts and the potential to impact upon liquidity. Many answers referred to income throughout the paper. There is a need to specify if the comment refers to 'sales', 'profit' or 'cash receipts' and this distinction is relevant to all discussion questions.

Question 3

- (a) This question required the application of an incomplete records approach through the use of a known mark-up ratio. This allowed the gross profit to be calculated and the trading account to be reconstructed. For many candidates this was unknown territory and often used either a cash payment figure to suppliers instead of purchases, or alternatively used \$8000 for the purchase of a motor vehicle which represented an error in principle. Marks could be obtained for the correct entries of operating expenses, but this does not mask an area that needs development in terms of the reconstruction of accounting statements from incomplete information.
- (b) **Part (b)** was a capital account activity linked to the information provided in **part (a)**. The capital account and its related ledger entries indicated few candidates were familiar with how capital is increased, such as by profits for the year and the reduction through the taking out of regular and additional cash drawings. The actual cash drawn from the bank of \$14600 was also used incorrectly as a drawings figure. The credit entry of \$15000 was made via the bank and too often this was recorded as balance b/d.
- (c) The mark scheme gives many examples for this one-mark question. Answers such as 'prevents errors' and 'prevents fraud' were not rewarded as emphasis is placed upon it is 'easier to detect errors and frauds. Similarly, a single reference to 'duality' was too vague and required a more detailed explanation.
- (d) This question has been highlighted in the 'key messages' section with the need to highlight that increased trade discount would be offered to regular customers only. A general discussion on the impact on gross profit was not identified or too often only profit was mentioned incorrectly. 'Bulk buying' and 'new customers would increase' did not necessarily follow and featured in many answers. Cash discounts attracted better answers and here the impact upon profit was relevant. The assumption that this would reduce irrecoverable debts is not automatic and the risk of reducing them needing to be highlighted. A frequent reference to 'paying on time' is not the same as 'paying earlier' which is the purpose of offering a cash discount. Both types of discounts should be discussed, and weaker answers often discussed one type only, without identifying which one.

Question 4

- (a) The importance of amending incorrect transactions through the journal is fundamental to manual and computerised bookkeeping systems. The majority of candidates would achieve one mark for one of the returns figures, sales journal was frequently used instead of the account name and error three was shown as debit \$81 and credit \$18. Error four was often incorrectly shown to petty cash instead of to Cole, a supplier account.
- (b) The suspense account linked to the error corrections in **part (a)** showed improvement on previous examinations. The tendency to include all of the errors is less frequent but, even so, the initial example given in the paper for rent and wages of \$350 would appear. The difference arrived at by balancing off the suspense account should be labelled correctly, and it is not a balance b/d and will only arise after the construction of the trial balance.
- (c) This was an opportunity to apply logic and understanding on how the errors would impact upon the draft profit. Most answers would gain two marks but often only one figure was included for returns instead of two, or the omission of motor expenses with an additional problem of the adjustments being added or subtracted when the opposite was required. This type of question needs more practice and answers that are laid out either in a tabular form with +/- or as given in the mark scheme will often gain higher marks. Too often a net adjustment was given without supporting workings and marks could not be awarded.
- (d) Very few correct answers were seen and the importance of key words such as 'material' and 'significant' were not offered. Many attempted to describe compensating errors or errors not affecting the trial balance.

Question 5

- (a) This question asked candidates to calculate five accounting ratios. These ratios are fundamental to enable meaningful interpretation of financial information to be carried out. For many candidates, the formula had not been committed to memory or lacked the understanding of the term capital employed or how inventory turnover could be calculated. A common error when calculating margins was not ensuring that the opening and closing inventory figures are identified correctly. This resulted in the incorrect calculation of the gross margin, although an own figure was permitted for the profit margin. The resulting ratios were also calculated but not expressed correctly as percentages or in proportion to one (0.2:1) for the liquid ratio. These were careless errors and candidates should always express ratios with the correct descriptor and to the prescribed number of decimal places.
- (b) This was not answered well. Many candidates focused on the ratios in **part (a)** and the lack of liquidity in the business. The thrust of the question related to the gross and profit margins and the possible reason why they may be different to that of a nearest competitor. The reduction in selling price and its outcome upon gross profit could be argued either way but few answers followed this line of reasoning. A mark was often gained for identifying that increased advertising/expenses would reduce the net profit, or the counter argument that increased advertising would generate extra sales.
- (c) The question is a very frequent business scenario. Should the business take out a five-year loan to finance its future expansion? This was usually well answered by most candidates with reasonable time allowing the loan to be repaid and leading to increased profits being popular answers. Common points against taking out a loan centred upon interest charges being incurred and the need to supply some form of security such as personal assets to the bank. Four or five marks gained here represented a welcome return across the candidate spectrum.
- (d) A very easy last part to the question and the majority would gain this final mark. Some candidates did put forward that it would be in the bank manager's interest, but this was not relevant to the question.