

ACCOUNTING

Paper 0452/12 Paper 12

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

Key messages

It is important that candidates have a thorough knowledge and understanding of all topics on the syllabus

Candidates are advised to read through each item very carefully before selecting an option on the answer sheet. This will ensure that they know exactly what is required.

General comments

A large number of candidates possessed a good understanding of double-entry book-keeping and were able to select the correct key to many items on the paper. These candidates earned high marks.

Comments on specific questions

Item 7

Candidates were provided with three statements relating to the sale of goods on credit when trade discount was allowed. The correct statements had to be selected. Half of the candidates selected the Key, **A**. The remainder of the answers were split between the other three options. It was expected that candidates would understand that trade discount is not recorded in the ledger and so statement 3 could be discarded. The net value of the goods is debited to the customer's account and full details of the sale are recorded in the sales journal (statements 1 and 2).

Item 9

This proved to be quite challenging for many candidates and only 24 per cent correctly identified the Key as **A**. The most popular incorrect option was **B** (\$620). This figure represented the debit balance in the cash book before the adjustment for the bank charges. After crediting the unrecorded amount of \$30 for bank charges the updated balance was \$590. This could be double-checked by preparing a bank reconciliation statement (cash book balance (\$590) add the unrepresented cheques (\$150) equals the bank statement balance (\$740)).

Item 12

The majority of candidates selected the correct Key. These candidates appreciated that depreciation does not provide a cash fund for the replacement of an asset. Option **B** was the only one to omit statement 2 which related to providing a cash fund so the Key was **B**.

Item 13

The depreciation of equipment using the straight-line method would have been \$3400 per annum. Using the reducing balance method, the depreciation for the first year would have been \$6000. The profit for the first year was understated by \$2600 (Option **C**).

Item 15

Half of the candidates correctly selected **C** as the Key. The other answers were spread over the remaining options. The preparation of a rent receivable account may have assisted candidates to calculate the rent actually received. The account would start with a credit balance of \$1020 (two months' rent). On the debit side, there would be the transfer to income statement of the rent for the year (\$6120) and the closing balance to carry down of \$1530 (three months' rent). The missing figure on the credit side would represent the amount received during the year.

Item 16

Just over half the candidates selected the Key, **C**, and the other answers were spread over the remaining options. The opening provision for doubtful debts was \$2700 and the closing provision was \$2500 (5 per cent of \$50 000). Where there is a decrease in the provision the surplus (\$200) is added to the gross profit and debited in the provision account.

Item 17

63 per cent of candidates appreciated that the gross profit, the profit for the year and the current assets would all decrease. The vast majority of these candidates understood that the amounts would decrease by the difference in the inventory valuation (\$200).

Item 19

Almost half the candidates incorrectly selected Option **A** as the Key. These candidates did not appreciate that paying trade payables does not affect the working capital as the current assets and the current liabilities decrease by the same amount. The working capital would increase by the capital invested and would decrease by the loan repayment. The Key was \$15 000 (Option **B**).

Item 24

Just over half the candidates selected the Key, **A**, and the other answers were spread over the remaining options. The profit for the year was \$13 000 of which \$6000 was transferred to general reserve and \$3000 was paid out as an interim dividend. The remaining \$4000 was to be used to pay a final dividend. This represents 8 per cent of the issued share capital so the Key was **A**.

Item 27

It was anticipated that the vast majority of candidates would be able to correctly calculate the direct costs (machinery operators' wages and raw materials consumed) and select Option **A** as the Key.

Item 31

It was expected that candidates would appreciate that both buying inventory for cash and selling inventory on credit are merely exchanging one current asset for another. Revaluing non-current assets does not affect the current ratio. If the owner reduced his drawings and left the money in the business bank account this would improve the current ratio. The Key was **B**.

Item 32

The vast majority of candidates appreciated that Flo had better control of the cost of sales, but only 39 per cent realised that Flo also had the better control of expenses. The difference between the gross margin and the profit margin represents the percentage of expenses to revenue. Flo's was 45 per cent and Mo's was 32 per cent, so Mo controlled her expenses better. The Key was **B**.



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Paper 22

Key messages

Candidates should ensure that they read through each question very carefully before attempting an answer. This ensures that a vital piece of information is not overlooked and that instructions can be followed precisely. Marks cannot be awarded for a factually correct statement which is not the answer to the question being asked.

It is advisable to show calculations where appropriate. This ensures that some of the available marks may be earned even though the final answer may be incorrect.

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

Candidates should avoid the use of inappropriate abbreviations such as 'b/d' for 'balance' in ledger accounts and 'COGS' for 'Cost of Goods Sold'.

Candidates are expected to be familiar with International Accounting Terminology and avoid the use of 'old' terminology such as 'stock', 'net profit' and so on.

It is extremely important that all figures are very clear and that writing is legible.

General comments

All the questions on the paper were compulsory and covered a wide range of syllabus topics. Most candidates attempted to answer all questions and were familiar with the correct format of financial statements.

All the day-to-day records of a business are based on double entry bookkeeping. Candidates must have a good knowledge of double entry and must be able to apply this to various scenarios. In addition to the figures in an account, attention must be given to the words entered in the details column and to the dates. Suitable descriptions must be used in both ledger accounts and financial statements.

This paper contained several questions where candidates were required to discuss a given scenario and recommend a course of action. Candidates are advised to think very carefully before attempting this type of question. Many candidates appear to have made a list of the points they wanted to make and these candidates were then able to construct a coherent response. The responses provided by other candidates tended to be vague and repetitive.

Comments on specific questions

Question 1

- (a) Using information provided, candidates were required to prepare a petty cash book. Many candidates were able to earn very high marks.

Some candidates did not make an entry for the restoration of the imprest on 1 January. A small number of candidates did not total the analysis columns and did not provide matching totals for the total received column and the total paid column. It should be remembered that the details column should contain only the name of the expense (or the name of the person in the case of payments to suppliers): details such as 'bought stationery' are not regarded as appropriate.

A number of candidates included extraneous items such as goods purchased on credit and the subsequent return of some of those goods. Such items do not involve petty cash: they would have been recorded in the purchases journal and purchases returns journal

- (b) The ledger account of a credit customer had to be prepared. This should have been a straightforward question, but a number of candidates completely reversed the account, or referred to purchases and purchases returns rather than sales and sales returns. A few candidates did not enter the dates on which the transactions took place.

It was expected that candidates would understand that trade discount does not appear in the ledger and only the net amounts of sales and sales returns are entered in the customer's account. A large number of candidates either included the gross amounts or made separate entries for the net amounts and the trade discount. The customer paid her account in petty cash so it was incorrect to use the word 'Bank' in the details column.

- (c) Candidates were required to complete a table to indicate how a supplier would record cash discount allowed to a customer. Most candidates gained the two marks available.
- (d) Two ways in which a customer could pay her account (excluding cash and cheque) had to be stated. Most candidates were able to provide acceptable answers. It should be remembered that answers should be written out in full and that abbreviations such as 'DD' and 'Cr Tran' are not acceptable. A few candidates seem to have misunderstood the question and provided answers such as bank overdraft and loan.

Question 2

- (a) Using information provided, candidates were required to prepare a purchases ledger control account, inserting the opening balance as a missing figure. There were many correct responses. A number of candidates used incorrect wording in the details columns such as 'refund' and 'interest charged'. These are not the names of accounts so they were regarded as unacceptable. Some candidates also included extraneous items such as commission and cash purchases which should not appear in a control account.
- (b) Two reasons had to be provided on why the purchase of a delivery vehicle was not recorded in the purchases ledger control account. Most candidates understood that a non-current asset/capital expenditure is not included in the control account but only a few were able to provide another acceptable reason. Candidates could have explained that the control account only includes transactions relating to trade payables and that it includes only the purchases of goods intended for re-sale.
- (c) Candidates were required to suggest the most appropriate method of depreciation for a delivery vehicle and to justify this with three reasons. Whilst many correctly stated that the reducing balance method was the most appropriate a high number incorrectly suggested the straight-line method.

Instead of explaining why the reducing balance method should be applied to this type of non-current asset, some answers listed reasons why non-current assets depreciate or why depreciation should be accounted for. It should have been explained that, in the case of a delivery vehicle, the repair costs are likely to be lower in the early year of usage and that the greater loss in value occurs during the early years. The reducing balance method of depreciation reflects this by charging a higher amount of depreciation in the early year of the life of the vehicle. The net book

value is likely to be closer to the eventual selling price than it would be using another method of depreciation.

- (d) Advice had to be provided on whether the directors of a limited company should finance the purchase of a fleet of delivery vehicles through an issue of ordinary shares or through a bank loan. When answering this type of question, it is useful to list the advantages and disadvantages of each source of funds and then to make a statement on the preferred option. Those candidates who marshalled their thoughts before commencing writing provided good answers. Answers provided by other candidates were sometimes somewhat jumbled. Many did not offer a recommendation.

Question 3

- (a) The trial balance of a trading partnership was provided, together with additional notes. Candidates were required to prepare an income statement. There were many wholly correct answers. A few candidates incorrectly included carriage outwards or discount received in the cost of sales. Some candidates provided an incorrect calculation of depreciation of furniture and often included the opening provision for depreciation. It is important the items such as cost of sales, gross profit and profit for the year are correctly labelled.
- (b) Candidates were required to prepare an appropriation account for a partnership. Using the profit for the year calculated in **part (a)**, many candidates prepared a correct account and earned high marks.
- (c) The current account of a partner had to be prepared. There was a wide range of marks. It was not uncommon for extraneous items such as the partner's capital and items relating to the other partner to be included. A few candidates either omitted the opening current account balance or inserted it on the wrong side of the account.
- (d) Candidates were required to advise partners whether to transfer a sum of money from the business bank account to an interest-bearing bank account. Once again, candidates who took time to consider the advantages and disadvantages before actually starting their answer were able to earn high marks. A number of candidates mentioned advantages and disadvantages but did not offer a recommendation. It would appear that some candidates misinterpreted the data and believed that interest had to be paid rather than being received.

Question 4

- (a) A list of errors discovered by a trader after the preparation of his trial balance was provided. Candidates were required to prepare journal entries to correct three of those errors. Those candidates who had a thorough understanding of double entry were able to earn high marks.

The entries to correct Error 1 were sometimes reversed. In Error 2 a common mistake was to make entries using the book value or the profit on sale instead of the proceeds of sale. Another common mistake was to credit an account named 'Sale of fittings' rather than the 'Disposal of fixtures and fittings account'. In Error 3, a number of candidates credited 'Cash drawings account' instead of 'Cash account'.

Candidates should be aware that where narratives are required marks will be forfeited if they are not provided.

- (b) A suspense account had to be prepared and the original difference on the trial balance inserted as the missing figure. This proved to be problematic for many candidates. The well-prepared candidates who had a good understanding of double entry were able to earn marks, but others found the question difficult.

Candidates had to read through the list of errors provided and select those which would affect the balancing of the trial balance. Only Errors 4 and 5 affected the trial balance and so only these errors would be corrected by entries in the suspense account. The missing figure represented the difference on the trial balance and should have been described as such. A number of candidates incorrectly labelled this as a balance and actually regarded it as a closing balance and carried it down to the next accounting period.



- (c) A table had to be prepared to indicate the effect of Errors 4–7 on the trader’s capital. There was a wide range of marks.
- (d) Three advantages of operating as a sole trader had to be provided. Most candidates earned at least two of the available marks. Candidates must be aware that three different advantages are required: it was not uncommon to see the same advantage repeated using different wording

Question 5

- (a) Using information provided, candidates were required to calculate four ratios. Many candidates earned all the available marks. A few candidates simply showed a figure for the profit margin and did not indicate that it represented a percentage. Some candidates did not follow the instruction to round up the trade payables turnover and the trade receivables turnover to the next whole day. A small number of candidates calculated the current ratio rather than the liquid ratio and some candidates incorrectly showed calculations for both of these.
- (b) Candidates were required to advise a trader whether he should delay paying the trade payables in an attempt to reduce the bank overdraft. As with the other discussion questions, those candidates who considered all the factors before actually starting their answer were able to earn high marks. Most candidates were able to make some relevant comments about the possible effects of delaying payments to credit suppliers. Very few candidates considered how such a course of action would impact on the trader’s bank balance and his relationship with the bank. A number of candidates did not offer a recommendation.
- (c) Three ways in which a trader could reduce his bank overdraft (excluding delaying paying credit suppliers) were required. Most candidates managed to earn at least two of the three marks available. Three examples of how credit control could be improved were regarded as one possible method of reducing the bank overdraft and not regarded as deserving three marks.
- (d)(i) Two reasons why a trader should produce an annual income statement had to be provided. The most common correct responses related to the calculation of the profit for the year. The well-prepared candidates were able to offer other valid reasons.
- (ii) Two reasons why a trader should apply the money measurement principle were required. This proved to be very challenging for many candidates. A number did try to explain that only items which can be expressed in monetary terms can be recorded in the accounting records. Only a minority of candidates were able to make further comments. Money is a common unit of measure and using this avoids subjectivity and allows easier comparisons year-on-year and with other businesses.