General comments

This was the first question paper set in the revised format incorporating some multiple choice items as well as the more familiar short form and longer form questions. The syllabus had changed to include some aspects of company accounting and although a specimen question paper had been published it appeared that some candidates found the new syllabus challenging.

Overall, there was a considerable range of answers, with less well prepared candidates able to gain some lower level marks on the question paper whilst the more able candidates were able to demonstrate their abilities on the higher level parts of the questions.

Most of the multiple choice questions in Question 1 were well answered but candidates found some of the items challenging. Candidates performed well on Question 2 and in particular gave good answers to the calculation parts of the question. However, many candidates had difficulty with part (h), the calculation of the total amount paid out by a company in dividends. All the parts to Question 3 were well answered, although some candidates were unable to construct the journal entry to correct an error accurately. Candidates found the first part of Question 4 difficult and although giving good answers to parts (b) and (c), a large number were unable to earn many marks at all in part (d). Question 5 on non-current assets and depreciation was not well answered and candidates seem to find this part of the syllabus particularly hard. Candidates also found part (a) of Question 6 difficult, but gave good answers to the rest of the question, and were given credit for incorrect figures carried forward.

Most candidates completed all the questions and there did not seem to be evidence of time pressure. There was space allocated on the question paper for candidates to show their workings, where these were required, and as previously commented, it is not possible to give credit to candidates who do not show their workings. It is recommended that Centres always encourage their candidates to show how they worked out the answers to numerical questions. It appeared that some candidates did not have access to a calculator and needed to work out some calculations by hand.

Comments on specific questions

Question 1

This comprised ten multiple choice questions, and performance varied. The best answers were given to items (i) and (j), whilst the items with the least number of correct answers were (c) and (e).

The correct answers to the questions are shown below:

Question 1

(a) Why does the owner of a business need to know how much profit he has made?

A to calculate interest payable on a bank loan ☐
B to calculate cost of sales ☐
C to calculate the return on capital ✔
D to calculate total expenses ☐
(b) Which business document shows all the transactions that have taken place with a customer during a month?

A credit note
B debit note
C invoice
D statement

(c) A shop makes all its sales for cash. Where does the sales account appear?

A cash book
B nominal (general) ledger
C sales journal
D sales ledger

(d) Which account could appear in either the debit column or the credit column of a trial balance?

A bad debts
B bank
C drawings
D sales

(e) The cash book showed a balance in the bank of $1000 Dr. On the same date, the bank statement showed a balance in the bank of $900 Dr. Which could be the reason for this difference?

A bank interest received
B payments made directly into the trader’s bank account
C standing order for property tax paid directly by the bank
D unpresented cheque

(f) What is an income statement (profit and loss account)?

A A list of all the assets and liabilities of a business at a particular date.
B A list of all the balances in the ledger accounts of a business at a particular date.
C A statement of receipts and payments of a business during a particular period.
D A summary of income and expenditure of a business during a particular period.

(g) Which entry is made to reduce a provision for doubtful debts?

<table>
<thead>
<tr>
<th>account to be debited</th>
<th>account to be credited</th>
</tr>
</thead>
<tbody>
<tr>
<td>A income statement (profit and loss account)</td>
<td>provision for doubtful debts</td>
</tr>
<tr>
<td>B provision for doubtful debts</td>
<td>income statement (profit and loss account)</td>
</tr>
<tr>
<td>C provision for doubtful debts</td>
<td>trade receivables (debtors)</td>
</tr>
<tr>
<td>D trade receivables (debtors)</td>
<td>provision for doubtful debts</td>
</tr>
</tbody>
</table>
(h) The total of the sales returns journal is posted to the sales returns account. Where will the double entry appear?

A bank account  
B creditors’ accounts  
C debtors’ accounts  
D sales account  

(i) How is working capital calculated?

A current assets – current liabilities  
B current assets + current liabilities  
C non-current (fixed) assets + current assets – current liabilities  
D non-current (fixed) assets + current assets + current liabilities  

(j) A sole trader compares his results with those of a similar business. Which shows how well expenses are being controlled?

A bank balance  
B cost of sales  
C gross profit  
D net profit  

Question 2

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus. It was quite well answered, although candidates had difficulty with items (b), (c) and (h).

(a) Acceptable examples of non-current (fixed) assets would include land, buildings, plant, equipment, machinery, fixtures, vans and other motor vehicles.

(b) Most candidates were able correctly to select the debit side of the ledger but some selected both sides in error:

<table>
<thead>
<tr>
<th></th>
<th>Debit entry</th>
<th>Credit entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales returns account</td>
<td>✔</td>
<td></td>
</tr>
</tbody>
</table>

(c) The accounting principle of consistency states that the same accounting treatment should be applied to similar items at all times. Other examples were often given but were not correct.

(d) Net book value is defined as cost less accumulated depreciation. Some candidates knew there was a relationship between cost, depreciation and net book value but had difficulty expressing it clearly.

(e) Carriage inwards is shown in the income statement, or the trading account. Candidates needed to include the word “trading” in answers giving the Profit and Loss account.

(f) Including an accrued expense is an example of the accounting principle of matching or accruals. Prudence was not accepted.

(g)(i) Tamara’s percentage of gross profit to sales

\[ \text{Percentage of gross profit} = \left( \frac{75000 - 52500}{75000} \right) \times 100\% = 30.00\% \]

Most candidates correctly calculated this, but some used the cost of sales instead of profit, and some made calculation errors.
(ii) Tamara’s percentage of net profit to sales

\[
\frac{(22\ 500 - 7\ 500 = 15\ 000)}{75\ 000} \times 100\% = 20.00\%
\]

Again most candidates correctly calculated this but some used the figure for expenses as net profit. It is most important for candidates to read the question carefully.

(h) This question, asking candidates to calculate the total amount of dividend paid to shareholders, was not well answered. Many candidates did not seem to realise that share capital is divided into a number of shares and that a dividend is declared on each share. It is therefore necessary to find the number of shares and multiply that number by the amount of the dividend declared per share to find the total amount to be paid out. Candidates should be prepared for questions involving dividends paid by companies.

The calculation is:

- Number of shares \(= \frac{5\ 000}{0.50} = 10\ 000\) shares
- Total dividend \(= 10\ 000\) shares \(\times 0.15\) per share
- \(= 1\ 500\)

**Question 3**

**Part (a)** to this question, requiring entries in the debit side of a cash book, was well answered and many candidates earned all the available marks. In **part (b)**, most candidates correctly gave the sales account, although some called it the sales ledger and lost marks. **Part (c)** required candidates to give a journal entry to correct an error of original entry and although some gave a correct answer, many were confused as to whether the entries were debits or credits and what the correct amounts should be; they gave a variety of narratives to accompany their entry. Any narrative referring to correcting an error was accepted. In **part (d)**, candidates were asked for suggestions as to how a trader may encourage his customers to pay him and most candidates gave at least one acceptable answer.

(a) The correct entries to be made on the debit side of the cash book are as follows.

<table>
<thead>
<tr>
<th>Sumaru</th>
<th>Cash book, April 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>Cash Dr $</td>
</tr>
<tr>
<td>3</td>
<td>Ahar 1 500</td>
</tr>
<tr>
<td>9</td>
<td>Cash sales 4 000</td>
</tr>
<tr>
<td>12</td>
<td>Bannu 2 000</td>
</tr>
<tr>
<td>22</td>
<td>Dooly 1 650</td>
</tr>
<tr>
<td>28</td>
<td>Eduardo 900</td>
</tr>
</tbody>
</table>

(b) The correct entry for the transaction on 9 April is shown below.

<table>
<thead>
<tr>
<th>Name of account</th>
<th>Dr $</th>
<th>Cr $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td>4000</td>
</tr>
</tbody>
</table>
(c) The correct journal entry to correct the error is

<table>
<thead>
<tr>
<th>Date</th>
<th>Dr  $</th>
<th>Cr  $</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 April</td>
<td>Suspense</td>
<td>360</td>
</tr>
<tr>
<td></td>
<td>Cash book (bank)</td>
<td>360</td>
</tr>
</tbody>
</table>

To correct incorrect balance entered at 1 April 2010

(d) Acceptable examples of ways to encourage customers to pay their invoices would be to

- Send a regular statement of account
- Offer cash discount (not trade discount)
- Limit the customer’s credit (no more credit sales)
- Charge interest on overdue amounts
- Use debt collection methods

Some candidates referred to giving small gifts to customers as they paid their accounts. This was treated as a form of cash discount and marked accordingly.

Question 4

This question dealt with the basis of inventory valuation in part (a), required the preparation of a company balance sheet in part (b) after adjusting the value of inventory, and then in part (c) asked candidates to decide on the outcome of proposed actions to enable the company to repay its bank loan. Finally, candidates were asked in part (d) to state the accounting principle which states that a business is to continue indefinitely, and to state the value at which assets should be valued if the business is not expected to continue. Many candidates found this last part very difficult.

In part (a), most candidates gave the correct basis of inventory valuation, but few realised that the company should use the lower inventory amount given in the question in its balance sheet, and fewer still understood that reducing the closing inventory amount would reduce the company’s profit for the year by the same amount. This principle is important and is clearly not well understood.

The correct answers to part (a) are therefore

(i) Inventory is valued at the lower of cost and net realisable value
(ii) Inventory should be valued at $2700 in the company’s balance sheet at 31 March 2010
(iii) Profit for the year is reduced (not overstated or understated) by $300

Most candidates performed well in preparing the company balance sheet in part (b), but few used the lower figure of inventory from part (a), and many showed the bank loan as a long term liability, not realising that it was repayable within one year and was therefore a current liability. Few candidates reduced the profit for the year for the reduced inventory valuation, and as a result many balance sheets did not balance, with candidates attempting incorrect balancing entries. Candidates should note that where they are to prepare a balance sheet, they should follow a recognised layout with headings, and should not just give a list of balances.

The correct balance sheet is:

Timpani Limited
Balance Sheet at 31 March 2010

$     $

Non-current (fixed) assets
Plant and equipment at cost 20 000
Accumulated depreciation 12 000
Net book value 8 000

Current assets
Inventory (stock) 2 700
Trade receivables (debtors) 1 000
Bank 500
In part (c) candidates should have considered whether the suggested action would have increased or reduced the company’s bank balance. Reducing the dividend would conserve funds, reducing depreciation has no effect, and reducing trade payables would reduce the balance at the bank.

Many candidates were able to answer this question well, but there were some guesses and some candidates clearly were not able to make the connection between the courses of action and the company’s bank balance and gave inconsistent answers.

The correct entries in the table are

<table>
<thead>
<tr>
<th></th>
<th>Successful</th>
<th>Not Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce dividend</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Reduce depreciation</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Reduce trade payables (creditors)</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

The correct answers to part (d) were

(i) The going concern principle (the continuity principle was acceptable)
(ii) Assets in a business which is not expected to continue should be valued at their expected sale values (net realisable value was acceptable, but net book value was not.)

Few candidates were able to give acceptable answers to either section of this part.

**Question 5**

This question dealt with the difference between capital and revenue expenditure, calculating depreciation and the net book value of a non-current asset, showing the accounting entries on the sale of the asset, and considering whether the basis of depreciating the asset is appropriate.

Candidates performed well in part (a), and most showed a good understanding of the difference between capital and revenue expenditure. Some answered by guesswork, and some appeared not to understand the question, in some cases giving both capital and revenue as their incorrect answer. The correct answer is

<table>
<thead>
<tr>
<th></th>
<th>Capital</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hire charges</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Cash discount received from motor dealer for prompt payment for new car</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Part exchange value of used car</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

In part (b), candidates were asked to calculate depreciation for a given year and then to show the net book value of the asset at the end of that year. Most candidates correctly calculated the depreciation in part (i),
but many showed two years depreciation, not following the dates in the question, and many showed the net book value in their answer to (i) as well as, or instead of, in part (ii). Candidates often find questions involving depreciation to be challenging but if they read the question and the requirement carefully, and are well prepared, they will earn the available marks.

The answers to part (b) are

(i) Depreciation = cost $12 000 @ 30% per annum = $3 600  
(ii) Net book value = cost $12 000 less depreciation $3 600 = $8 400

Part (c) required the preparation of the dispositions account on the scrapping of the asset. The question asked for an account, and those candidates who showed just a calculation did not earn any marks. Accounts in running balance format or the traditional T format were acceptable, but candidates who reversed debit and credit entries did not earn marks. Candidates should have showed the transfer to income statement (profit and loss account) as the balance required to close the account and should not have carried any balance forward. The account is

<table>
<thead>
<tr>
<th>Disposal of motor vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
</tr>
<tr>
<td>$</td>
</tr>
<tr>
<td>1 April Motor vehicle 12 000</td>
</tr>
<tr>
<td>1 April Depreciation 3 600</td>
</tr>
<tr>
<td>Bank (Insurance) 5 000</td>
</tr>
<tr>
<td>Income statement 3 400</td>
</tr>
<tr>
<td>(Profit &amp; loss account)</td>
</tr>
<tr>
<td>12 000</td>
</tr>
</tbody>
</table>

Note that although dates are shown in the account, they were not required for the marks.

In part (d), candidates were asked to comment on the annual rate of depreciation where the part exchange value of the asset is less than the net book value and to suggest a different method of charging depreciation. Very few candidates realised that the annual rate of depreciation should be increased if the reducing balance method continued to be used, and although most offered the straight line method as an alternative, few were able to give a convincing reason for their answer. Acceptable answers would have included:

(i) The reducing balance rate may be too low as a large loss arose on scrapping the car. Increasing the rate up to 60% per annum would reduce the loss.

(ii) Straight line method over life of car (three years), or using scrap value, or Depreciation based on estimated mileage over three years.

Question 6

Part (a) of this question required candidates to compute the amount of credit sales of a business from information about movements in the bank account, opening and closing trade receivables and other items. There was in fact additional information given which would be used later in the question and candidates needed to select the appropriate items for their calculation.

This part of the question was not well done. Most candidates realised they needed to start with deposits to the bank for the year, but few correctly adjusted the opening and closing trade receivables, some adding both amounts, some subtracting both, some adding one and subtracting the other, but not often the correct ones. Some incorrectly included the opening and closing bank balances and lost marks. Most realised it was necessary to adjust for the cash sales but many were not sure of the correct adjustment.

The credit sales could be found as follows:

<table>
<thead>
<tr>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits to bank 15 270</td>
</tr>
<tr>
<td>Less: cash sales 2 680</td>
</tr>
<tr>
<td>12 590</td>
</tr>
<tr>
<td>Less: receivables at 1 April 2009 3 140</td>
</tr>
<tr>
<td>9 450</td>
</tr>
<tr>
<td>Add: receivables at 31 March 2010 4 080</td>
</tr>
<tr>
<td>13 530</td>
</tr>
</tbody>
</table>
Candidates should note that where a figure is found which is to be used in a later part of the question, they will only lose marks for any error they make in the first part: Examiners give credit for correctly using figures found earlier in the question. This is the case with parts (b) and (c) of this question.

Part (b) required candidates to prepare a trading account from information given and using the sales figure from part (a). Most candidates earned most of the available marks and gave good answers to this part. The trading account was

Wilma
Trading account for the year ended 31 March 2010

<table>
<thead>
<tr>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales) – credit</td>
<td>13 530</td>
</tr>
<tr>
<td>- cash</td>
<td>2 680</td>
</tr>
<tr>
<td></td>
<td>16 210</td>
</tr>
<tr>
<td>Inventory (stock) at 1 April 2009</td>
<td>1 780</td>
</tr>
<tr>
<td>Purchases</td>
<td>9 560</td>
</tr>
<tr>
<td>Carriage inwards</td>
<td>280</td>
</tr>
<tr>
<td></td>
<td>11 620</td>
</tr>
<tr>
<td>Inventory (stock) at 31 March 2010</td>
<td>1 920</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>9 700</td>
</tr>
<tr>
<td>Gross profit</td>
<td>6 510</td>
</tr>
</tbody>
</table>

In part (c), candidates were asked to calculate two measures of business performance, the rate of inventory turnover and the collection period for trade receivables. The first calculation was done well, with many candidates earning all the available marks. The second calculation was done less well, with many candidates being confused as to which figure of receivables should be used in the calculation. Some added the opening and closing amounts together, some subtracted one from the other, some used an average, but the correct figure is the closing receivables. The calculations are

(i) Rate of inventory (stock) turnover = Cost of goods sold / average inventory (stock)
   = 9 700 / [(1 780 + 1 920)/2 = 1 850]
   = 5.24 times (note: not %, days, or any other description)

(ii) Collection period for trade receivables (debtors)
    = (Debtors / credit sales) x 365 days
    = (4 080 / 13 530) x 365 days
    = 110 days (note: not %, times, or any other description)

In part (d), candidates were asked to decide the effect on gross profit, the percentage of gross profit to sales, and the rate of inventory turnover of omitting to bank some cash sales and using the money to pay for additional purchases, which had not been recorded in the books.

This required candidates to realise that sales and purchases had been understated by the same amount and to understand the effect of this error on the measures. If sales and purchases have both been understated by the same amount, the gross profit will not be affected. The percentage of gross profit to sales will be reduced, and as the cost of sales has been understated, the rate of inventory turnover will be increased.

This was a higher level question, and few candidates earned all the marks, although some correctly answered that the gross profit would not be affected. The correct table is

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Decrease</th>
<th>No change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Percentage of gross profit to sales</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Rate of inventory (stock) turnover</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ACCOUNTING

General comments

Most candidates seemed to have coped well with the changes to the structure of the examination paper in this session. There was a wide spread in candidates' performance and many candidates achieved high marks. Well prepared candidates were able to gain most of the available marks; the paper also offered less well prepared or weaker candidates the opportunity to gain some marks. All the questions were split into sections which covered the whole ability range, with better candidates able to demonstrate their evaluation and analysis skills in some sections of each question. The multiple choice questions at the start of the paper proved the most difficult for the majority of candidates.

Most of the multiple choice questions in Question 1 were poorly answered and in many cases candidates had struggled to choose between 2 or 3 of the options available; the petty cash imprest in part (d) and inventory (stock) valuation in part (g) proved particularly difficult. Candidates also struggled with the selection of treatment of dishonoured cheques in Question 2 and the double entry of accrued wages in part (h) was not well answered. The treatment of interest on partners' drawings in Question 3 was a problem for many candidates but the calculations of interest on capital and drawings in part (a) and (b) of the question were very well answered. Candidates' strongest question was invariably Question 4 and a good understanding of trial balance and income statements was shown by most candidates. Candidates' answers for Question 5 generally showed a good knowledge of bad debts but there were weaknesses in both the understanding and recording of a provision for bad/doubtful debts. Most of the sections in Question 6 were well answered but many candidates struggled to explain why depreciation should not be charged on land in part (d).

Most candidates completed all the questions and there did not seem to be evidence of time pressure although there were a number of candidates who did not attempt some of the questions at all.

Comments on specific questions

Question 1

This was a new section for the paper and consisted of 10 multiple choice questions from across the syllabus and tested the full range of skills. Many scripts showed that candidates had crossed out and amended answers, which suggests that candidates found this type of question quite challenging. Marks awarded varied considerably and there seemed to be little correlation between the marks gained on this section and overall marks for the whole paper. It may well be that candidates had difficulty with this type of question due to lack of familiarity.

Question 2

This question tested candidates’ understanding of the accounting ratios, double-entry techniques and accounting principles.

Part (a) required candidates to give two ratios used to measure the profitability of a business. Acceptable answers were return on capital employed, percentage of gross profit to sales or GP margin or GP%, percentage of net profit to sales or NP margin or NP%.

A very significant number of candidates gave liquidity ratios as the answer to this question.

In part (b) candidates were asked to identify whether items were current assets or current liabilities; this was very well answered with nearly all candidates correctly identifying inventory (stock) and other receivables (prepayments) as current assets and trade payables (creditors) as current liabilities.
Candidates were once again asked to tick the appropriate entry in a box in part (c) to show where the entry for a dishonoured cheque would be made in a cash book. This was very poorly answered as few candidates selected the correct answer of the credit side in the bank column. The most common error was due to incorrect interpretation of the question as many candidates tried to show how both debit and credit entries would be made, which was impossible to do as the question did not state who the cheque was from and both entries would not appear in the cash book anyway. Some candidates may also have tried to make the entry as if they were the bank and not the business.

When asked in part (d) which final account discount allowed would be shown in some candidates lost marks by stating trading account rather than income statement, although the answers of trading and profit/loss account were acceptable.

Well prepared candidates were able to correctly name an error of principle as the type of error when entering a new machine in the repairs account in part (e) and matching/prudence as the principle being followed for making a provision for doubtful debts in part (f). These two questions did produce a wide range of incorrect answers from weaker candidates.

Part (g) required candidates to calculate the rate of inventory (stock) turnover and payment period for trade payables (creditors). Both parts were generally quite well answered but some candidates lost marks by not following the instructions in the question and giving their answer to two decimal places in (i) and whole days in (ii).

The correct calculations were

(i) rate of inventory (stock) turnover
\[
= \frac{(4,000 + 45,500 + 2,500 - 5,600)}{(4,000 + 5,600)/2} = 9.66 \text{ times}
\]

(ii) Payment period for trade payables
\[
= \frac{3,750}{45,500} \times 365 \text{ days}
= 30 \text{ days (to nearest whole day)}
\]

Candidates were asked to write up the wages account to show the effect of outstanding wages in part (h). This was poorly answered and candidates frequently put the entries on the wrong side or gave inappropriate descriptions.

<table>
<thead>
<tr>
<th>Hooper – Wages account</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
</tr>
<tr>
<td>Bank (Cash) 32,800</td>
</tr>
<tr>
<td>(or Accruals)</td>
</tr>
<tr>
<td>Balance c/d 450</td>
</tr>
<tr>
<td>(or Accruals)</td>
</tr>
<tr>
<td>33,250</td>
</tr>
</tbody>
</table>

**Question 3**

This question tested candidates’ understanding of various aspects relating to partnerships. Candidates were required to calculate interest on capital and interest on drawings before showing the balance of net profit for a partnership. They were then asked to write up the current account for one of the partners and finally show the effect of reducing the rate of interest would have on drawings.

**Part (a) and (b)** (the calculations) were very well answered and many candidates obtained all, or very nearly all, the available marks.

(a) (i) Arthur $30,000 \times 3\% = $900
(ii) Nancy $40,000 \times 3\% = $1200
(b) (i) Arthur $35,000 \times 4\% = $1400
(ii) Nancy $15,000 \times 4\% = $600
Part (c) was also quite well answered but not all candidates realised that the figures calculated in part (a) and (b) were to be included in the calculation of the balance of net profit for the year.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>$89,000</td>
</tr>
<tr>
<td>Less salary</td>
<td>$15,000</td>
</tr>
<tr>
<td>Interest on capital</td>
<td>$2,100</td>
</tr>
<tr>
<td>Residual profit</td>
<td>$73,900</td>
</tr>
</tbody>
</table>

(Shared 2:3 Arthur: Nancy)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arthur</td>
<td>$29,560</td>
</tr>
<tr>
<td>Nancy</td>
<td>$44,340</td>
</tr>
</tbody>
</table>

A number of candidates failed to read the question correctly in part (d) and attempted to write up a combined current account for both partners rather than just Arthur; in other cases candidates again failed to realise that the interest on drawings and interest on capital figures from part (a) and (b) were to be included in this section as well.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on drawings</td>
<td>$1,400</td>
</tr>
<tr>
<td>Drawings</td>
<td>$35,000</td>
</tr>
<tr>
<td>Balance c/d</td>
<td>$9,060</td>
</tr>
<tr>
<td>Residual profit</td>
<td>$29,560</td>
</tr>
<tr>
<td>Balance b/d</td>
<td>$9,060</td>
</tr>
</tbody>
</table>

Part (e) required candidates to identify the effect reducing the rate of interest would have on the partners’ drawings. This produced the weakest response in Question 3 and many candidates clearly failed to recognise that reducing the rate of interest would increase the earnings for the partnership.

Question 4

This question on trail balances and income statements was found to be very easy by many candidates, and a significant number of completely correct answers were given. This was the best answered section in the whole paper.

Part (a) required candidates to provide one reason for preparing a trial balance. The main reason expected to be put forward was to help trace or identify errors but marks were also awarded where candidates suggested helping to prepare final accounts.

A list of accounts was provided in part (b) which required the candidate to prepare a trial balance and show differences as a suspense account. This was very well answered but some candidates omitted to include the suspense account figure, so lost marks unnecessarily.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales)</td>
<td>$125,000</td>
</tr>
<tr>
<td>Inventory (stock)</td>
<td>$14,500</td>
</tr>
<tr>
<td>Purchases</td>
<td>$76,000</td>
</tr>
<tr>
<td>Bank (overdraft)</td>
<td>$9,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$2,300</td>
</tr>
<tr>
<td>Trade receivables (debtors)</td>
<td>$1,700</td>
</tr>
<tr>
<td>Trade payables (creditors)</td>
<td>$2,800</td>
</tr>
<tr>
<td>Expenses</td>
<td>$37,500</td>
</tr>
<tr>
<td>Capital</td>
<td>$15,500</td>
</tr>
<tr>
<td>Drawings</td>
<td>$8,000</td>
</tr>
<tr>
<td>Suspense</td>
<td>$1,100</td>
</tr>
<tr>
<td></td>
<td>$146,700</td>
</tr>
</tbody>
</table>

For part (c) candidates were asked to show how the error would be entered in the journal to correct the error; whilst many candidates did show the correct entries, marks were often lost because the narrative provided failed to explain that the entries were to correct a previous error.
Part (d) required candidates to complete a pro forma extract from a summary income statement to calculate net profit. Common errors in this part were failing to include the sales previously omitted and referred to in Part (c) or confusing the opening and closing inventory (stock). A small number of candidates also added cost of sales to sales in an attempt to calculate gross profit.

\[
\begin{array}{|c|c|c|}
\hline
\text{Dr} & \text{Cr} \\
\hline
\text{Suspense} & 1\,100 \\
\text{Revenue (sales)} & 1\,100 \\
\hline
\end{array}
\]

Sales previously omitted from the ledger

**Deali**

Summary Income Statement (Trading and Profit and Loss Account)
for the year ended 31 March 2010

\[
\begin{array}{|c|c|}
\hline
\text{} & \$ \\
\hline
\text{Revenue (sales)} & 126\,100 \\
\text{Inventory (stock) at 1 April 2009} & 14\,500 \\
\text{Purchases} & 76\,000 \\
\text{} & 90\,500 \\
\text{Inventory (stock) at 31 March 2010} & 18\,000 \\
\text{Cost of sales} & 72\,500 \\
\text{Gross profit} & 53\,600 \\
\text{Expenses} & 37\,500 \\
\text{Net profit} & 16\,100 \\
\hline
\end{array}
\]

**Question 5**

This question involved bad debts and provisions for bad/doubtful debts. Candidates were asked to provide some definitions of the terms used and also show the double-entry treatment of both items. It was clear that this was an area that candidates were not always well versed in, and this question was the lowest scoring in the paper.

In part (a), candidates were asked to provide definitions of bad debts and a provision for doubtful debts. The answer required for bad debts should have shown some recognition that a debt was an amount owed to the business and that this debtor involved was unable or unwilling to pay. This section was fairly well answered. The second part required a definition of provision for doubtful debts that included reference to it being an estimate and that it was an amount likely to be lost through future bad debts. This section was much weaker as candidates often failed to recognise that it was either an estimate or that it referred to future bad debts.

Part (b) required the candidate to show the journal entry used to write off bad debts owed by 2 debtors. Most candidates often got the amounts and the accounts correct but entries were often on the wrong side. Some candidates made the entries as bad debts and income statement. The correct entries were:
Part (c) requested candidates to calculate the provision for doubtful debts. This was generally performed well and most candidates correctly deducted the bad debts from part (b) before calculating the amount due for the provision for bad debts. Some marks were still awarded to those candidates who ignored the bad debts for correctly carrying out the calculation even though their final figure was incorrect.

<table>
<thead>
<tr>
<th></th>
<th>Dr $</th>
<th>Cr $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad debts (income statement) (or profit and loss account)</td>
<td></td>
<td>850</td>
</tr>
<tr>
<td>Veeku or Debtors</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td>Wlanda</td>
<td></td>
<td>550</td>
</tr>
</tbody>
</table>

Balance on sales ledger $12,600
Less: bad debts written off $850
$11,750

Provision for doubtful debts @ 4% = $470

In part (d), candidates were asked to show the journal entry to create a provision for doubtful debts to record the amount calculated in part (c). Even if candidates had made an incorrect calculation in part (c) the marks awarded in this section were based on the candidates’ own figures. Even so, this section was generally poorly answered as few candidates were able to identify the correct accounts involved. A very common error was to show provision for doubtful debts as Dr and bad debts as Cr.

<table>
<thead>
<tr>
<th></th>
<th>Dr $</th>
<th>Cr $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income statement (Profit and Loss account)</td>
<td></td>
<td>470</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td></td>
<td>470</td>
</tr>
</tbody>
</table>

The question further tested candidates understanding of bad debts and provision for doubtful debts in part (e). In part (e)(i) candidates were required to show the transfer to the income statement from the bad debts account. Once again candidates were not penalised if they used the incorrect figures they had previously calculated in part (b). Despite this candidates often had the entries posted on the opposite side or did not make reference to the income statement (profit/loss account) even though the question made specific reference to this account. The correct entries should be:

Bad debts account

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors</td>
<td>850</td>
<td>850</td>
</tr>
<tr>
<td>Veeku</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>or Wlanda</td>
<td>550</td>
<td></td>
</tr>
</tbody>
</table>

In part (e)(ii) candidates were asked to show how transfers to the income statement from the provision for doubtful debts account. This was very poorly understood and few candidates were able to show a good understanding of the treatment for provision for doubtful debts. The correct answer should have been:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for doubtful debts account</td>
<td></td>
<td>470</td>
</tr>
<tr>
<td>Balance c/d</td>
<td>470</td>
<td></td>
</tr>
<tr>
<td>Income statement (Profit and loss)</td>
<td></td>
<td>470</td>
</tr>
<tr>
<td>Balance b/d</td>
<td></td>
<td>470</td>
</tr>
</tbody>
</table>
Once again “Own Figures” were accepted from previous calculations but many candidates failed to recognise that there would be a balance on this account or inappropriately made the Cr entry to bad debts; in both cases showing a lack of understanding of the nature of provisions.

The answers to part (f) were the weakest in the whole paper and although many candidates recognised that the Cr entry could be bank, cash or Veeku very few realised that the Dr entry would be income statement as the transaction had moved into a different year for income purposes.

<table>
<thead>
<tr>
<th>Bad debts recovered account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income statement</td>
</tr>
<tr>
<td>Bank (Cash/Veeku)</td>
</tr>
<tr>
<td>$300</td>
</tr>
<tr>
<td>$300</td>
</tr>
</tbody>
</table>

**Question 6**

This question covered a range of topics including users of accounting information, capital and revenue expenditure and depreciation.

**Part (a)** required candidates to provide two examples of parties interested in the accounts of a business. This section was answered extremely well and the only candidates who lost marks were those that ignored the instructions in the question and quoted owners or shareholders. Suitable answers were Managers, Bank or other lender, Creditors, Customers, Suppliers, Employees, Government, Competitor or potential investors.

Capital and revenue expenditure was tested in **part (b)** and most candidates were able to correctly categorise at least 3 of the 4 items. Architects’ fees and repainting the old factory were the most frequent errors. The correct answers were:

<table>
<thead>
<tr>
<th>Item</th>
<th>Capital</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>New factory extension</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Repainting old factory</td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Architects’ fees for designing extension</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>New plant and equipment for extension</td>
<td></td>
<td>✔️</td>
</tr>
</tbody>
</table>

Candidates were asked to calculate depreciation using the straight line basis for two items in **part (c)(i)** and (ii). The first calculation caused some problems and errors as candidates had to add architects’ fees to the cost of the factory extension in order to determine the full cost of the asset. Those candidates who had incorrectly specified the architects’ fees as revenue expenditure in the previous section obviously failed to add the extra $3000 onto the cost of the building. Some marks were lost for this but these candidates were still able to gain marks if the rest of their calculations were correct.

(i) Factory cost $30 000 + Architects’ fees $3 000

\[
\text{Total cost} = \frac{33\,000}{20} = 1,650
\]

(ii) Plant and equipment $6 000 - residual value $800 = $5200

\[
\text{Over useful life} = \frac{5\,200}{4} = 1,300
\]

In the final section, **part (d)**, candidates were asked to suggest two reasons why depreciation should not be charged on land. This produced a wide range of answers and more able candidates responded well but weaker candidates struggled to apply their knowledge to this concept. Good answers made comments such as land has an indefinite expected life, land does not wear out, land is not consumed by use and land increases in value over time. Whilst many candidates had obviously been taught about the reasons why assets are depreciated only the more competent candidates were able to apply these reasons to land and appreciate why land does not normally depreciate.
ACCOUNTING

General comments

Most candidates seemed to have coped well with the changes to the structure of the examination paper in this session. There was a wide spread in candidates’ performance and many candidates achieved high marks. Well prepared candidates were able to gain most of the available marks; the paper also offered less well prepared or weaker candidates the opportunity to gain some marks. All the questions were split into sections which covered the whole ability range, with better candidates able to demonstrate their evaluation and analysis skills in some sections of each question. The multiple choice questions at the start of the paper proved the most difficult for the majority of candidates.

Most of the multiple choice questions in Question 1 were poorly answered and in many cases candidates had struggled to choose between 2 or 3 of the options available; the petty cash imprest in part (d) and inventory (stock) valuation in part (g) proved particularly difficult. Candidates also struggled with the selection of treatment of dishonoured cheques in Question 2 and the double entry of accrued wages in part (h) was not well answered. The treatment of interest on partners’ drawings in Question 3 was a problem for many candidates but the calculations of interest on capital and drawings in part (a) and (b) of the question were very well answered. Candidates’ strongest question was invariably Question 4 and a good understanding of trial balance and income statements was shown by most candidates. Candidates’ answers for Question 5 generally showed a good knowledge of bad debts but there were weaknesses in both the understanding and recording of a provision for bad/doubtful debts. Most of the sections in Question 6 were well answered but many candidates struggled to explain why depreciation should not be charged on land in part (d).

Most candidates completed all the questions and there did not seem to be evidence of time pressure although there were a number of candidates who did not attempt some of the questions at all.

Comments on specific questions

Question 1

This was a new section for the paper and consisted of 10 multiple choice questions from across the syllabus and tested the full range of skills. Many scripts showed that candidates had crossed out and amended answers, which suggests that candidates found this type of question quite challenging. Marks awarded varied considerably and there seemed to be little correlation between the marks gained on this section and overall marks for the whole paper. It may well be that candidates had difficulty with this type of question due to lack of familiarity.

Question 2

This question tested candidates’ understanding of the accounting ratios, double-entry techniques and accounting principles.

Part (a) required candidates to give two ratios used to measure the profitability of a business. Acceptable answers were return on capital employed, percentage of gross profit to sales or GP margin or GP%, percentage of net profit to sales or NP margin or NP%.

A very significant number of candidates gave liquidity ratios as the answer to this question.

In part (b) candidates were asked to identify whether items were current assets or current liabilities; this was very well answered with nearly all candidates correctly identifying inventory (stock) and other receivables (prepayments) as current assets and trade payables (creditors) as current liabilities.
Candidates were once again asked to tick the appropriate entry in a box in part (c) to show where the entry for a dishonoured cheque would be made in a cash book. This was very poorly answered as few candidates selected the correct answer of the credit side in the bank column. The most common error was due to incorrect interpretation of the question as many candidates tried to show how both debit and credit entries would be made, which was impossible to do as the question did not state who the cheque was from and both entries would not appear in the cash book anyway. Some candidates may also have tried to make the entry as if they were the bank and not the business.

When asked in part (d) which final account discount allowed would be shown in some candidates lost marks by stating trading account rather than income statement, although the answers of trading and profit/loss account were acceptable.

Well prepared candidates were able to correctly name an error of principle as the type of error when entering a new machine in the repairs account in part (e) and matching/prudence as the principle being followed for making a provision for doubtful debts in part (f). These two questions did produce a wide range of incorrect answers from weaker candidates.

Part (g) required candidates to calculate the rate of inventory (stock) turnover and payment period for trade payables (creditors). Both parts were generally quite well answered but some candidates lost marks by not following the instructions in the question and giving their answer to two decimal places in (i) and whole days in (ii).

The correct calculations were

(i) rate of inventory (stock) turnover

\[ \frac{4 000 + 45 500 + 2 500 - 5 600}{4 000 + 5 600}/2 = 9.66 \text{ times} \]

(ii) Payment period for trade payables

\[ \frac{3 750}{45 500} \times 365 \text{ days} = 30 \text{ days (to nearest whole day)} \]

Candidates were asked to write up the wages account to show the effect of outstanding wages in part (h). This was poorly answered and candidates frequently put the entries on the wrong side or gave inappropriate descriptions.

<table>
<thead>
<tr>
<th>Hooper – Wages account</th>
</tr>
</thead>
<tbody>
<tr>
<td>$32 800 Balance b/d $300</td>
</tr>
<tr>
<td>Bank (Cash) or Accruals</td>
</tr>
<tr>
<td>$450 Income statement $32 950</td>
</tr>
<tr>
<td>Balance c/d or Accruals (Profit and Loss account)</td>
</tr>
<tr>
<td>$33 250 Balance b/d $33 250</td>
</tr>
<tr>
<td>or Accruals</td>
</tr>
<tr>
<td>450</td>
</tr>
</tbody>
</table>

**Question 3**

This question tested candidates’ understanding of various aspects relating to partnerships. Candidates were required to calculate interest on capital and interest on drawings before showing the balance of net profit for a partnership. They were then asked to write up the current account for one of the partners and finally show the effect of reducing the rate of interest would have on drawings.

Part (a) and (b) (the calculations) were very well answered and many candidates obtained all, or very nearly all, the available marks.

(a) (i) Arthur $30 000 x 3% = $900
(ii) Nancy $40 000 x 3% = $1200
(b) (i) Arthur $35 000 x 4% = $1400
(ii) Nancy $15 000 x 4% = $600
Part (c) was also quite well answered but not all candidates realised that the figures calculated in part (a) and (b) were to be included in the calculation of the balance of net profit for the year.

\[
\begin{array}{c|c}
\text{Net profit} & 89\,000 \\
\text{Interest on drawings} & 2\,000 \\
\hline
\text{Less salary} & 15\,000 \\
\text{Interest on capital} & 2\,100 \\
\text{Residual profit} & 73\,900 \\
\end{array}
\]

\[
\begin{array}{c|c}
\text{(Shared 2:3 Arthur: Nancy)} & \\
\hline
\text{Arthur} & 29\,560 \\
\text{Nancy} & 44\,340 \\
\end{array}
\]

A number of candidates failed to read the question correctly in part (d) and attempted to write up a combined current account for both partners rather than just Arthur; in other cases candidates again failed to realise that the interest on drawings and interest on capital figures from part (a) and (b) were to be included in this section as well.

Arthur – Current account

\[
\begin{array}{c|c}
\text{Interest on drawings} & 1\,400 \\
\text{Drawings} & 35\,000 \\
\text{Balance c/d} & 9\,060 \\
\hline
\text{Interest on capital} & 900 \\
\text{Salary} & 15\,000 \\
\text{Residual profit} & 29\,560 \\
\text{Balance b/d} & 9\,060 \\
\end{array}
\]

Part (e) required candidates to identify the effect reducing the rate of interest would have on the partners’ drawings. This produced the weakest response in Question 3 and many candidates clearly failed to recognise that reducing the rate of interest would increase the earnings for the partnership.

Question 4

This question on trail balances and income statements was found to be very easy by many candidates, and a significant number of completely correct answers were given. This was the best answered section in the whole paper.

Part (a) required candidates to provide one reason for preparing a trial balance. The main reason expected to be put forward was to help trace or identify errors but marks were also awarded where candidates suggested helping to prepare final accounts.

A list of accounts was provided in part (b) which required the candidate to prepare a trial balance and show differences as a suspense account. This was very well answered but some candidates omitted to include the suspense account figure, so lost marks unnecessarily.

\[
\begin{array}{c|c}
\text{Revenue (sales)} & 125\,000 \\
\text{Inventory (stock)} & 14\,500 \\
\text{Purchases} & 76\,000 \\
\text{Bank (overdraft)} & 2\,300 \\
\text{Equipment} & 9\,000 \\
\text{Trade receivables (debtors)} & 1\,700 \\
\text{Trade payables (creditors)} & 2\,800 \\
\text{Expenses} & 37\,500 \\
\text{Capital} & 15\,500 \\
\text{Drawings} & 8\,000 \\
\text{Suspense} & 1\,100 \\
\hline
\text{Total} & 146\,700 \\
\end{array}
\]

For part (c) candidates were asked to show how the error would be entered in the journal to correct the error; whilst many candidates did show the correct entries, marks were often lost because the narrative provided failed to explain that the entries were to correct a previous error.
Part (d) required candidates to complete a pro forma extract from a summary income statement to calculate net profit. Common errors in this part were failing to include the sales previously omitted and referred to in Part (c) or confusing the opening and closing inventory (stock). A small number of candidates also added cost of sales to sales in an attempt to calculate gross profit.

<table>
<thead>
<tr>
<th>Part (d) required candidates to complete a pro forma extract from a summary income statement to calculate net profit. Common errors in this part were failing to include the sales previously omitted and referred to in Part (c) or confusing the opening and closing inventory (stock). A small number of candidates also added cost of sales to sales in an attempt to calculate gross profit.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deal</strong></td>
</tr>
<tr>
<td><strong>Summary Income Statement (Trading and Profit and Loss Account)</strong></td>
</tr>
<tr>
<td>for the year ended 31 March 2010</td>
</tr>
<tr>
<td>$</td>
</tr>
<tr>
<td>Revenue (sales)</td>
</tr>
<tr>
<td>Inventory (stock) at 1 April 2009</td>
</tr>
<tr>
<td>Purchases</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Inventory (stock) at 31 March 2010</td>
</tr>
<tr>
<td>Cost of sales</td>
</tr>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>Expenses</td>
</tr>
<tr>
<td>Net profit</td>
</tr>
</tbody>
</table>

**Question 5**

This question involved bad debts and provisions for bad/doubtful debts. Candidates were asked to provide some definitions of the terms used and also show the double-entry treatment of both items. It was clear that this was an area that candidates were not always well versed in, and this question was the lowest scoring in the paper.

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\[
\begin{array}{ccc}
\text{Balance on sales ledger} & $12,600 \\
\text{Less: bad debts written off} & 850 \\
\hline
\text{Provision for doubtful debts @ 4\%} & $470
\end{array}
\]

In part (d), candidates were asked to show the journal entry to create a provision for doubtful debts to record the amount calculated in part (c). Even if candidates had made an incorrect calculation in part (c) the marks awarded in this section were based on the candidates’ own figures. Even so, this section was generally poorly answered as few candidates were able to identify the correct accounts involved. A very common error was to show provision for doubtful debts as Dr and bad debts as Cr.

The question further tested candidates understanding of bad debts and provision for doubtful debts in part (e). In part (e)(i) candidates were required to show the transfer to the income statement from the bad debts account. Once again candidates were not penalised if they used the incorrect figures they had previously calculated in part (b). Despite this candidates often had the entries posted on the opposite side or did not make reference to the income statement (profit/loss account) even thought the question made specific reference to this account. The correct entries should be:

\[
\begin{array}{ccc}
\text{Bad debts account} & \\
\text{Debtors} & $850 \\
\text{or Veeku} & 300 \\
\text{or Wlanda} & 550 \\
\text{Income statement} & $850 \\
\text{(Profit and loss)} & \\
\end{array}
\]

In part (e)(ii) candidates were asked to show how transfers to the income statement from the provision for doubtful debts account. This was very poorly understood and few candidates were able to show a good understanding of the treatment for provision for doubtful debts. The correct answer should have been:

\[
\begin{array}{ccc}
\text{Provision for doubtful debts account} & \\
\text{Balance c/d} & $470 \\
\text{Income statement} & $470 \\
\text{(Profit and loss)} & \\
\text{Balance b/d} & 470 \\
\end{array}
\]
Once again “Own Figures” were accepted from previous calculations but many candidates failed to recognise that there would be a balance on this account or inappropriately made the Cr entry to bad debts; in both cases showing a lack of understanding of the nature of provisions.

The answers to part (f) were the weakest in the whole paper and although many candidates recognised that the Cr entry could be bank, cash or Veeku very few realised that the Dr entry would be income statement as the transaction had moved into a different year for income purposes.

### Bad debts recovered account

<table>
<thead>
<tr>
<th>Income statement</th>
<th>$300</th>
<th>Bank (Cash/Veeku)</th>
<th>$300</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Profit and loss)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Question 6

This question covered a range of topics including users of accounting information, capital and revenue expenditure and depreciation.

Part (a) required candidates to provide two examples of parties interested in the accounts of a business. This section was answered extremely well and the only candidates who lost marks were those that ignored the instructions in the question and quoted owners or shareholders. Suitable answers were Managers, Bank or other lender, Creditors, Customers, Suppliers, Employees, Government, Competitor or potential investors.

Capital and revenue expenditure was tested in part (b) and most candidates were able to correctly categorise at least 3 of the 4 items. Architects’ fees and repainting the old factory were the most frequent errors. The correct answers were:

<table>
<thead>
<tr>
<th></th>
<th>Capital</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>New factory extension</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Repainting old factory</td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Architects’ fees for designing extension</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>New plant and equipment for extension</td>
<td>✔️</td>
<td></td>
</tr>
</tbody>
</table>

Candidates were asked to calculate depreciation using the straight line basis for two items in part (c)(i) and (ii). The first calculation caused some problems and errors as candidates had to add architects’ fees to the cost of the factory extension in order to determine the full cost of the asset. Those candidates who had incorrectly specified the architects’ fees as revenue expenditure in the previous section obviously failed to add the extra $3000 onto the cost of the building. Some marks were lost for this but these candidates were still able to gain marks if the rest of their calculations were correct.

(i) Factory cost $30 000 + Architects’ fees $3 000

- Total cost
- Over useful life 20 years
- $33 000
- 20
- $1 650

(ii) Plant and equipment $6 000 - residual value $800 = $5200

- Over useful life
- $5 200
- 4 years
- $1 300

In the final section, part (d), candidates were asked to suggest two reasons why depreciation should not be charged on land. This produced a wide range of answers and more able candidates responded well but weaker candidates struggled to apply their knowledge to this concept. Good answers made comments such as land has an indefinite expected life, land does not wear out, land is not consumed by use and land increases in value over time. Whilst many candidates had obviously been taught about the reasons why assets are depreciated only the more competent candidates were able to apply these reasons to land and appreciate why land does not normally depreciate.
General comments

This was the first examination based on the new syllabus. All the questions were compulsory and covered various topics on the syllabus. It was intended that all candidates should be able to attempt the structured questions on this examination paper.

It was disappointing to find that a significant number of candidates were unable to produce appropriate responses to questions on limited companies, as this topic is now included in the syllabus. Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a pass grade. When preparing for the examination, candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

In any accounting examination it is important to show calculations where appropriate. A number of candidates lost marks by providing an incorrect figure without supporting calculations. If calculations had been provided those candidates may have been awarded some of the available marks.

Where a question specifies a number of items required, for example, “State two reasons ............”, “Name the accounting principle .............”, candidates are expected to follow these instructions. It is not acceptable to provide a list of several items and expect the Examiner to select the correct one(s).

Candidates are reminded of the importance of reading through each question very carefully before attempting an answer. Marks may be lost if instructions are not followed. For example, marks were lost when an instruction to provide narratives for journal entries was ignored. Similarly, failing to calculate a ratio correct to two decimal places resulted in the loss of marks.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on specific questions

Question 1

This question required candidates to answer various theory questions about petty cash and depreciation and to do some simple calculations of depreciation. Most of these questions should have been relatively straightforward and it was very disappointing to find that many candidates were unable to provide correct answers to some of the theory questions.

(a) Candidates were required to state two reasons why a trader maintains a petty cash book. Many candidates described a petty cash book but seemed unable to suggest why a trader should use one. A few correctly mentioned reducing the number of entries in the main cash book and the ledger accounts.

(b) An explanation of the imprest system was required. Many candidates seemed to understand that this system involved a refund of the amount spent but appeared to find it difficult to explain this.

(c) Only a few candidates were able to provide an acceptable advantage of the imprest system of petty cash.
(d) Candidates were required to do a simple calculation to calculate the amount the petty cashier would receive to restore the imprest. The total amount paid was $88, so the amount received from the chief cashier should equal this figure: it was disappointing that a significant number of candidates stated that $12 would be received.

(e) (i) An explanation of the entry that would be made in the ledger for items recorded in the travelling expenses column of the petty cash book was required. It was expected that candidates would be able to state that the travelling expenses account would be debited with $11.

(ii) Many candidates appeared to misunderstand this question which asked candidates to state how the double entry would be completed for the items in the ledger accounts column of the petty cash book. Candidates should have stated that N Jones’ account would be debited with $21 and W Smith’s account would be debited with $18.

(f) Two reasons why a trader should depreciate non-current (fixed) assets were required. It was pleasing to find that a large number of candidates were able to provide two acceptable reasons. Many correctly mentioned the application of the principles of prudence and accruals. It was a little disappointing to find some answers incorrectly stating that depreciation was used to calculate the selling price of the asset, or to provide a fund for its replacement.

(g) An explanation of the principle of consistency was required. Many candidates did seem to have some understanding, but many failed to explain that once a method has been chosen that method must be applied consistently from year to year. A large number limited their answers solely to the choice of a method of depreciation, failing to appreciate that this principle is also applied to other things such as stock valuation. It was disappointing to find a significant number of candidates confusing the principle of consistency with the going concern principle.

(h) Calculations of depreciation of equipment using the straight line method and the reducing balance method were required. It was expected that most candidates would be able to earn full marks for this section of the question.

Many candidates gained full marks for the calculation using the straight line method. Others lost marks as it was impossible to distinguish the annual depreciation and the net book value from the mass of figures produced. For some reason a number of candidates correctly calculated the depreciation for the first two years and then managed to provide a different figure for year 3.

It was pleasing that many candidates gained full marks for the calculation using the reducing balance method of depreciation. Again, marks were lost because of poor presentation. It was somewhat disappointing to find a number of candidates using a starting figure of $7500 rather than the actual cost of the asset ($8000). Some candidates correctly calculated the depreciation for the first and second years and then incorrectly calculated 60% x ($4800 - $1920) for the depreciation for year 3.

Question 2

This question was on the topic of manufacturing accounts. It was pleasing to find a large number of very good answers.

(a) Candidates were asked to explain why it was necessary to prepare a manufacturing account. Many correctly explained that this was to calculate the cost of finished production. A few incorrectly suggested that the manufacturing account showed the profit for the year.

(b) Two reasons why a manufacturer might purchase finished goods were required. The majority of candidates were able to gain at least one of the two available marks. Marks were often lost because of incomplete responses. For example, a statement that manufacturing is expensive gained no marks unless an attempt was made to compare the cost of making with the cost of buying.

(c) Using given data, candidates were required to prepare a manufacturing account. There were some excellent answers.

Marks were lost because of incorrect or incomplete descriptions such as “PC” for prime cost, and “WP” for opening work in progress. The descriptions of the various stocks should indicate whether
they are the opening or closing values and which type of inventory (stock) they are (raw materials or work in progress). Some candidates lost marks because some of the items were placed in incorrect positions such as direct wages being included with the overheads, or work in progress added to the raw materials. The calculation of the depreciation of machinery caused a few problems. It was expected that candidates would add the machinery purchased during the year to the opening valuation and then deduct the closing valuation to arrive at the depreciation for the year.

Question 3

This question included the topics of provision for doubtful debts, journal entries, and stock valuation.

(a) The calculation of a provision for doubtful debts caused a problem for many candidates. Many correctly calculated the correct figure of $386 (2½% x ($15,530 – 90)). Other candidates incorrectly calculated 2½% x $15,530 or 2½% x ($15,530 – 300).

(b) Candidates were required to prepare three journal entries including narratives. Some of the answers were disappointing. Some candidates did not seem to appreciate that journal entries simply show what is going to be recorded in the ledger at a later date. If candidates prepared some workings in the form of “T” accounts this may be helpful in determining the debit and credit entries required. A number of candidates used incorrect figures for the journal entries. Narratives were often omitted. It is recommended that candidates study this topic further.

(c) An extract from the current assets section of a balance sheet was required. There were many correct answers showing the trade receivables minus the provision for doubtful debts as calculated in Part (a). Marks were lost because of including figures without any descriptions, adding the provision rather than deducting it, and showing the trade receivables as $15,530 rather than $15,440.

(d) Using data provided, candidates were required to calculate the value of a trader’s closing inventory (stock). This proved to be a difficult question for some candidates. Many candidates failed to take into account the cost of carriage of Type A, and the loss of damaged goods of Type B. The total of the two types of inventory (stock) was often not provided. Some candidates even showed a negative value. Marks were sometimes lost because of poor presentation when it was difficult to determine which figures the candidates intended to be the final answers.

(e) It was pleasing to find that most candidates were able to correctly state that the principle of prudence was applied in the valuation of inventory (stock). The principle of consistency was an acceptable alternative response. Some candidates incorrectly suggested the principle of matching.

Question 4

This question involved the calculation and interpretation of ratios. Many candidates gained high marks on this question.

(a) Most candidates were able to explain the meaning of the terms mark-up and margin. It was a little disappointing to find some candidates confusing the two, and others confusing these with rate of inventory (stock) turnover.

(b) Using the data provided, many candidates correctly calculated the percentage mark-up and the percentage margin. Even those candidates who used incorrect formulae often managed to gain some credit for own figure answers where calculations were provided.

(c) Candidates were required to suggest two ways in which the trader could improve his profit margin. Acceptable answers included increasing the selling price and obtaining cheaper supplies. A large number of candidates incorrectly referred to selling more and purchasing less. These candidates failed to appreciate that the profit margin is related to values not quantities.

(d)/(e) The calculation of the current ratio and the quick ratio were well done by many candidates. It was disappointing that a number of candidates included petty cash as a current liability rather than a current asset. A few candidates correctly calculated the figures correctly but then presented the answer incorrectly. For example the answer of 1.50:1 was sometimes displayed as 1.50 times, 1.50%, or 1:1.50.
Most candidates realised that the inventory (stock) should not be included in the quick ratio. A number of candidates incorrectly deducted the inventory (stock) from the trade receivables (debtors) and the petty cash instead of just using these latter figures.

(f) Based on their answer to Part (e), most candidates were able to correctly state whether the trader would be satisfied with the change in the quick ratio. The explanations provided were, however, often inadequate and did not refer to the effect the change in the liquidity would have on the business.

(g) Candidates were required to state how two transactions would affect a trader’s working capital. There were some wholly correct responses, but the number of incorrect answers suggests a significant amount of guesswork. It is recommended that candidates study the effect of transactions on the working capital of a business.

Question 5

This question was based on limited liability companies. This is the first examination since this topic was included on the syllabus. The responses generally were very disappointing. Many candidates appeared to have only a slight knowledge of this topic. It is recommended that candidates study the relevant sections in textbooks and practice appropriate questions on this topic. The endorsed textbook (IGCSE and O Level Accounting) and the accompanying Workbook should be useful. Additional exercises of the appropriate level can be found on the specimen paper and on past examination papers for O Level Principles of Accounts (7110).

(a) Candidates were required to explain two features of preference shares and ordinary shares. Many candidates failed to attempt answers. The answers which were provided were often vague and imprecise. Some referred to selling shares to the public (which may apply to a public limited company but not to a private limited company). A number of candidates incorrectly stated that preference shares receive a fixed percentage of the profit. It was not regarded as adequate to state “preference shares receive their money first”. Candidates should have explained that the preference shareholders receive their dividend before the ordinary shareholders receive theirs and when a company is being wound up the capital is returned to the preference shareholders before the ordinary shareholders.

(b) Using the data provided, candidates were required to prepare an extract from a limited company balance sheet to show the capital and reserves. There were some extremely disappointing answers. Many candidates incorrectly included debentures. Incorrect descriptions also resulted in the loss of marks.

The issued share capital of 5% preference shares ($100 000) and the ordinary shares ($300 000) should have been listed followed by the retained profits ($15 000).

(c) Using the data provided, candidates were required to prepare an extract from a limited company balance sheet to show the current liabilities. Again, there were some extremely disappointing answers. Many candidates again incorrectly included the debentures. Marks were lost because of incorrect descriptions and incorrect figures.

Candidates were expected to list the preference share dividend ($5000), the ordinary share dividend ($30 000) and the debenture interest ($4000).

Question 6

This question was based on the topic of partnership accounts. It was pleasing to see many candidates earning high marks on this question.

(a) Most candidates were able to explain that the presence of a partnership agreement reduced the possibility of misunderstandings and disagreements in the future. Some responses simply listed what may be included in a partnership agreement: this was not the answer to the question being asked.
(b) Candidates were required to explain why the partners had included interest on drawings and partner’s salary in the partnership agreement. It was pleasing to find a high number of wholly correct responses. Most candidates realised that charging interest on drawings would deter partners from making excessive drawings and that the salary was compensation for work done in the business. It was slightly disappointing to find some candidates believing that the salary was to compensate for unequal capital contributions. A few candidates simply described interest on drawings and salary which was not the answer to the question being asked.

(c) Using the data provided, candidates were required to prepare the profit and loss appropriation account of a partnership. It was very pleasing to find many candidates gaining high marks on this question. A number of candidates failed to share the residual loss between the partners and others shared it out equally instead of in proportion to the capital invested. Some candidates lost marks because they included total figures for interest on capital and interest on drawings rather than showing the amount relating to each partner. A few candidates incorrectly included the capital and drawings. Other candidates listed the interest on capital, interest on drawings and salary but did not use these correctly.

(d) A statement of corrected profit was required. A large number of candidates gained high marks on this question, which was very pleasing. A small number of candidates failed to earn an own figure mark for the corrected profit because of careless arithmetic errors.
General comments

This was the first examination based on the new syllabus. All the questions were compulsory and covered various topics on the syllabus. It was intended that all candidates should be able to attempt the structured questions on this examination paper.

The topic of limited companies is included in the syllabus and it was disappointing to find that a significant number of candidates were unable to produce appropriate responses to questions on limited companies. Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a pass grade. When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

In any accounting examination it is important to show calculations where appropriate. A number of candidates lost marks by providing an incorrect figure without supporting calculations. If calculations had been provided those candidates may have been awarded some of the available marks.

Where a question specifies a number of items required, for example, “State two reasons ...............”, “Name the accounting principle ...............”, candidates are expected to follow these instructions. It is not acceptable to provide a list of several items and expect the Examiner to select the correct one(s).

Candidates are reminded of the importance of reading through each question very carefully before attempting an answer. Marks may be lost if instructions are not followed. For example, marks were lost when an instruction to provide narratives for journal entries was ignored. Similarly, failing to calculate a ratio correct to two decimal places resulted in the loss of marks.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on specific questions

Question 1

This question was on the topic of bank reconciliation.

(a) Candidates were required to explain why items are recorded on the opposite side of the cash book to that on which they appear on the bank statement. There were some very disappointing responses. Many candidates discussed double entry and/or duality. Some candidates did try to explain that the bank statement is a copy of the business’s account in the bank’s books and the bank account in the cash book is prepared from the viewpoint of the business, but such explanations were very confused.

(b) Using given data, candidates were required to update the cash book of a trader. It was pleasing to see some wholly correct answers. A small number of candidates included bank reconciliation statement items. The error of under-casting the debit column of the cash book caused problems for some candidates: this error would have been corrected by making an entry on the debit side. A few failed to bring down the closing balance.

(c) A bank reconciliation statement had to be prepared. Most candidates were able to provide suitable labels for the figures, but many were unsure about the treatment of the items within the statement. It was acceptable to have a statement starting with the up-dated cash book balance or the bank
statement balance. Both the bank statement and the up-dated cash book showed an overdrawn balance. Marks were lost when candidates treated these as positive balances. The bank error caused problems for some candidates.

It is recommended that candidates study the topic of bank reconciliation further, concentrating on the procedures to be followed when one or both of the balances show an overdraft.

(d) Candidates were required to state the bank balance which should appear in the trader’s balance sheet. This should have been the closing balance of the up-dated cash book (a liability of $1344). It was disappointing that a number of candidates believed that the bank statement balance would appear in the trader’s balance sheet.

Question 2

This question was based on limited liability companies. This is the first examination since this topic was included on the syllabus. Apart from Part (a), the responses generally were very disappointing. Many candidates appeared to have only a slight knowledge of this topic. It is recommended that candidates study the relevant sections in textbooks and practice appropriate questions on this topic. The endorsed textbook (IGCSE and O Level Accounting, published by Cambridge University Press) and the accompanying Workbook should be useful. Additional exercises at the appropriate level can be found on the specimen paper and on past examination papers for O Level Principles of Accounts (7110).

(a) The meaning of the term “limited liability” was required. It was pleasing that the majority of candidates were able to explain that the liability of shareholders of a company for the debts of the company is limited to the amount they agreed to pay for the shares.

(b) Two differences between preference shares and debentures were required. Most candidates attempted to provide answers, but these were often vague and imprecise. Some incorrectly stated that preference shares received a fixed percentage of the profit. It was not regarded as adequate to state “debentures get their money first”. Candidates should have explained that the debenture holders receive their interest before the preference shareholders received their dividend and when a company is being wound up the loan is repaid to the debenture holders before the preference share capital is repaid.

(c) Candidates were required to explain the meaning of the terms “authorised capital”, “called-up capital” and “paid-up capital”.

Many candidates failed to provide adequate explanations. Authorised capital is the maximum amount of share capital that a company is permitted to issue. Called-up capital is the total amount of capital a company has requested from its shareholders. Paid-up capital is that part of the called-up capital for which a company has actually received the money from its shareholders. There were some very confused explanations. Authorised capital was often confused with capital for non-current (fixed) assets or capital allowed by the government; called-up capital was often confused with working capital; paid-up capital was often referred to as being paid to shareholders.

(d) Using the data provided candidates were required to prepare the appropriation account of a limited company. Once again, there were some very disappointing answers. Most candidates used the vertical format, but the horizontal format was equally acceptable. In a vertical account, it is recommended that the retained profit brought forward from the previous year is added to the profit retained in the current year, rather than added to the profit for the year (net profit) at the beginning of the account.

Many candidates correctly calculated the dividends but imprecise descriptions resulted in marks being lost. It was not uncommon for the dividends to be described as shares. It is important that the dividends are correctly defined. In this case candidates should have distinguished between preference share dividend paid, preference share dividend proposed and ordinary share dividend proposed. Full marks were not awarded for “Preference dividend $4200” as this does not distinguish between the interim dividend paid and the dividend proposed. No marks were awarded for “Ordinary shares $12 000” as this fails to include the word “dividend” and fails to say whether it is a dividend proposed or a dividend paid.
Question 3

Journal entries and the correction of errors were the topics covered by this question.

(a) The reason for showing a narrative as part of a journal entry was required. Many candidates successfully stated that the narrative explains the reasons for the entries which are to be made in the ledger. A number of candidates incorrectly restricted their answer to correction of errors.

(b) It was pleasing that many candidates were able to correctly identify the accounts to be debited and the accounts to be credited. Marks were lost because of imprecise/vague account names. “Bad debts written off” and “purchase of equipment” are not account names. Inappropriate narratives also resulted in marks being lost. The narratives provided by many candidates simply stated the original error: the narratives should have stated that the entries were to correct errors.

(c) Candidates were required to state and explain the effect of three errors on the profit for the year (net profit). There was a wide range in the marks gained for this question. It appears that there may well have been a degree of guesswork on the part of some candidates. Many candidates successfully identified the effect of the error but were unable to provide an appropriate reason. This was especially true of the effect of stationery being debited to the purchases account. The correction of this error resulted in the cost of sales being reduced (or the gross profit being increased) and the expenses being increased, meaning that the profit for the year (net profit) remained unchanged.

Question 4

This question required candidates to explain the entries in an expense account and also to identify certain accounting principles.

(a) Candidates were required to explain some entries in a rates (property tax) account and to state where the double entries would be made.

The debit balance on 1 April 2009 was the amount of rates (property tax) prepaid during the previous financial year which related to the current financial year. The double entry would be a credit in the rates (property tax) account for the year ended 31 March 2009.

Many candidates successfully explained that the entry for bank on 1 July 2010 represented the total amount of rates (property tax) paid by cheque and that the double entry would be a credit in the bank column of the cash book.

The item on 31 March 2010 for income statement (profit and loss account) represented the rates (property tax) relating to the current year which was transferred to the income statement (profit and loss account). Many answers were restricted to “amount transferred to income statement” which was not regarded as adequate. The double entry would be a debit in the income statement (profit and loss account).

(b) An explanation of the significance of the balance at the end of the property tax (rates) account was required. It was not acceptable to state that this was the balance of the account: that should be evident from the question. It should have been explained that this represented the amount of rates (property tax) still outstanding at the end of the financial year.

(c) Many candidates appeared to be familiar with the accruals (matching) principle, but were unable to provide a clear explanation that this required the revenue of the accounting period to be matched against the costs of the same period.

Candidates were required to explain how the accruals (matching) principle had been applied in the preparation of the property tax (rates) account. Only a very small number of candidates could explain that the rates (property tax) relating to that particular financial year was transferred to the income statement (profit and loss account). Some candidates mentioned that the closing accrual would be taken into consideration when making the transfer but failed to mention the opening prepayment.

(d) It was pleasing that the majority of candidates were able to identify that the transaction described was an application of the principle of business entity. A few suggested the principle of duality.
A large number of candidates correctly identified the principle being applied as realisation. A few incorrectly suggested prudence or matching.

Question 5

This question included a small theory question and the preparation of an income statement of a service business, including the calculation of fees received.

(a) Candidates were asked to indicate whether three businesses were trading businesses or service businesses. This should have been a very easy question and many candidates gained full marks. It was surprising to find that a large number of candidates believed that a baker was a service business and a travel agent was a trading business.

(b) Using the data provided, candidates were required to calculate the fees of a service business relating to the current financial year. The answer was acceptable either in ledger account format or in the form of an arithmetical calculation. It was very pleasing to find a large number of wholly correct answers.

(c) An income statement (profit and loss account) of a service business was required. Most candidates prepared the statement in the vertical format, but the horizontal format was equally acceptable. Many candidates gained high marks. Marks were lost because of inappropriate wording such as “sales” or “gross profit” instead of “fees”, and the inclusion of the cost of new equipment. A few candidates included the rent received in the expenses or deducted it from the fees. Some candidates failed to calculate the loss on disposal of equipment. The calculation of the depreciation for the year also caused problems when many candidates failed to appreciate that the depreciation should be for six months and not for a whole year.

Question 6

This question involved the calculation and interpretation of ratios. It was very pleasing to find a large number of candidates gaining high marks on this question.

(a) Candidates were required to calculate the percentage of gross profit to sales and the percentage of net profit to sales. Most candidates were awarded full marks. A small number of candidates failed to present the answers correct to two decimal places.

(b)(i) A comment on the change in the ratio of gross profit to sales was required. Candidates also had to suggest one reason for this change. Most candidates made an appropriate comment on the change in the ratio, but not all were able to suggest a suitable reason for the change. A reduction in the quantity of goods sold or an increase in the quantity of goods bought were common incorrect responses. The gross profit ratio is related to values not quantities.

(ii) A comment on the change in the ratio of net profit to sales and a reason for this change were required. Once again, most candidates made an appropriate comment on the change in the ratio. Popular correct responses were that the expenses had been controlled better or there had been a decrease in expenses.

(c) Two disadvantages of a trader being short of working capital were required. It was pleasing to find many candidates earning full marks. Popular correct responses included that the trader could not meet liabilities when due and may not be able to obtain further supplies on credit. A few candidates provided answers which were too similar to merit one mark each. For example, statements about having insufficient funds to pay credit suppliers and having insufficient funds to run the business on a day-to-day basis were regarded as being too similar to merit full marks.
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(a) The reason for showing a narrative as part of a journal entry was required. Many candidates successfully stated that the narrative explains the reasons for the entries which are to be made in the ledger. A number of candidates incorrectly restricted their answer to correction of errors.

(b) It was pleasing that many candidates were able to correctly identify the accounts to be debited and the accounts to be credited. Marks were lost because of imprecise/vague account names. “Bad debts written off” and “purchase of equipment” are not account names. Inappropriate narratives also resulted in marks being lost. The narratives provided by many candidates simply stated the original error: the narratives should have stated that the entries were to correct errors.

(c) Candidates were required to state and explain the effect of three errors on the profit for the year (net profit). There was a wide range in the marks gained for this question. It appears that there may well have been a degree of guesswork on the part of some candidates. Many candidates successfully identified the effect of the error but were unable to provide an appropriate reason. This was especially true of the effect of stationery being debited to the purchases account. The correction of this error resulted in the cost of sales being reduced (or the gross profit being increased) and the expenses being increased, meaning that the profit for the year (net profit) remained unchanged.

Question 4

This question required candidates to explain the entries in an expense account and also to identify certain accounting principles.

(a) Candidates were required to explain some entries in a rates (property tax) account and to state where the double entries would be made.

The debit balance on 1 April 2009 was the amount of rates (property tax) prepaid during the previous financial year which related to the current financial year. The double entry would be a credit in the rates (property tax) account for the year ended 31 March 2009.

Many candidates successfully explained that the entry for bank on 1 July 2010 represented the total amount of rates (property tax) paid by cheque and that the double entry would be a credit in the bank column of the cash book.

The item on 31 March 2010 for income statement (profit and loss account) represented the rates (property tax) relating to the current year which was transferred to the income statement (profit and loss account). Many answers were restricted to “amount transferred to income statement” which was not regarded as adequate. The double entry would be a debit in the income statement (profit and loss account).

(b) An explanation of the significance of the balance at the end of the property tax (rates) account was required. It was not acceptable to state that this was the balance of the account: that should be evident from the question. It should have been explained that this represented the amount of rates (property tax) still outstanding at the end of the financial year.

(c) Many candidates appeared to be familiar with the accruals (matching) principle, but were unable to provide a clear explanation that this required the revenue of the accounting period to be matched against the costs of the same period.

Candidates were required to explain how the accruals (matching) principle had been applied in the preparation of the property tax (rates) account. Only a very small number of candidates could explain that the rates (property tax) relating to that particular financial year was transferred to the income statement (profit and loss account). Some candidates mentioned that the closing accrual would be taken into consideration when making the transfer but failed to mention the opening prepayment.
(d) It was pleasing that the majority of candidates were able to identify that the transaction described was an application of the principle of business entity. A few suggested the principle of duality.

(e) A large number of candidates correctly identified the principle being applied as realisation. A few incorrectly suggested prudence or matching.

Question 5

This question included a small theory question and the preparation of an income statement of a service business, including the calculation of fees received.

(a) Candidates were asked to indicate whether three businesses were trading businesses or service businesses. This should have been a very easy question and many candidates gained full marks. It was surprising to find that a large number of candidates believed that a baker was a service business and a travel agent was a trading business.

(b) Using the data provided, candidates were required to calculate the fees of a service business relating to the current financial year. The answer was acceptable either in ledger account format or in the form of an arithmetical calculation. It was very pleasing to find a large number of wholly correct answers.

(c) An income statement (profit and loss account) of a service business was required. Most candidates prepared the statement in the vertical format, but the horizontal format was equally acceptable. Many candidates gained high marks. Marks were lost because of inappropriate wording such as “sales” or “gross profit” instead of “fees”, and the inclusion of the cost of new equipment. A few candidates included the rent received in the expenses or deducted it from the fees. Some candidates failed to calculate the loss on disposal of equipment. The calculation of the depreciation for the year also caused problems when many candidates failed to appreciate that the depreciation should be for six months and not for a whole year.

Question 6

This question involved the calculation and interpretation of ratios. It was very pleasing to find a large number of candidates gaining high marks on this question.

(a) Candidates were required to calculate the percentage of gross profit to sales and the percentage of net profit to sales. Most candidates were awarded full marks. A small number of candidates failed to present the answers correct to two decimal places.

(b) (i) A comment on the change in the ratio of gross profit to sales was required. Candidates also had to suggest one reason for this change. Most candidates made an appropriate comment on the change in the ratio, but not all were able to suggest a suitable reason for the change. A reduction in the quantity of goods sold or an increase in the quantity of goods bought were common incorrect responses. The gross profit ratio is related to values not quantities.

(ii) A comment on the change in the ratio of net profit to sales and a reason for this change were required. Once again, most candidates made an appropriate comment on the change in the ratio. Popular correct responses were that the expenses had been controlled better or there had been a decrease in expenses.

(c) Two disadvantages of a trader being short of working capital were required. It was pleasing to find many candidates earning full marks. Popular correct responses included that the trader could not meet liabilities when due and may not be able to obtain further supplies on credit. A few candidates provided answers which were too similar to merit one mark each. For example, statements about having insufficient funds to pay credit suppliers and having insufficient funds to run the business on a day-to-day basis were regarded as being too similar to merit full marks.