ACCOUNTING

General comments

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Comments on specific questions

Question 1

This comprised ten multiple choice questions, and performance varied. Item (a) was well answered and items (d) and (h) appeared most challenging to all but the most able candidates.

Question 2

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus and was well answered. Candidates performed particularly well on part (b), and well on parts (c), (e), (h), and (i), but found item (d) very challenging.

(a) Acceptable examples of business documents would include sales or purchase invoice, credit or debit note, cheque, receipt, or petty cash voucher. Answers referring to the cash book, journals, or the ledger were not accepted.

(b) Most candidates were able to select the correct heading to show the items as income or an expense as follows:

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<th></th>
<th>Income</th>
<th>Expense</th>
</tr>
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<tbody>
<tr>
<td>Bad debt recovered</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Interest charged to customers on overdue accounts</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Discount allowed</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
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The accounting principle of reliability requires information to represent actual events and to be free from error and bias. Some candidates knew this, others attempted an answer with relevance, but this part was not well answered.

Where a cheque is credited to the wrong account in the sales ledger, an error of commission has been made. A large number of candidates knew this and gave correct answers.

Shareholders of a company have limited liability because their liability for the company’s debts is limited to the amount they have paid for their shares. Many candidates knew this principle but had difficulty explaining it in their own words, and credit was given for any indication that the shareholder’s assets were not available to pay company debts.

Several candidates omitted to realise that the carriage inwards was $1 per dress and valued the dresses at $13.00 each but a pleasing number gave the correct answer. 20 dresses remaining @ £13.50 each (net realisable value) = value in balance sheet $270

Petty cash imprest $150 less expenses $80.50 = petty cash remaining $69.50.

This was well answered and most candidates earned the marks although some guessed incorrectly.

This was well answered by those who had learnt the necessary formula.

The rate of inventory (stock) turnover = cost of goods sold / average inventory (stock)
= 45 000 / (6000 + 9000) / 2
= 6 times.

The alternative calculation, where average stock is divided by the cost of goods sold, gives 60 days.

Question 3

This question was reasonably answered although many candidates had difficulty preparing an acceptable bank reconciliation, and lost marks from inaccurate or inadequate descriptions of items. For example, “Balance b/d” might refer to the original balance on the cash book, the adjusted balance, or the balance on the bank statement. Centres should encourage candidates to be precise and accurate in their answers.

Answers to part (a) were generally good, with most candidates expressing the concept of items in the cash book but not on the bank statement, or items on the bank statement but not in the cash book, and many gave acceptable examples such as outstanding bank lodgements, unpresented cheques, or bank charges; other acceptable answers were bank or cash book errors and dishonoured cheques and credit was given for any two of these answers.

Part (b) was also well answered but a significant number of candidates included incorrect adjustments for outstanding bank lodgements or unpresented cheques when writing up the adjusted cash book.

Part (c) required a bank reconciliation statement and candidates found this part of the question difficult. This may be because the statement is not an account, just a calculation, or it may be because candidates find the concept hard to understand. Centres are encouraged to explain the reasons for a reconciliation statement and the adjusting items to be found in them. The statement may have been shown either with the adjusted cash book balance at the start and ending with the bank statement balance, or the other way round.

Candidates answered part (d) quite well: most correctly gave current assets as the balance sheet heading under which the bank balance is found, and stated the correct figure to be the updated cash book balance, $1890, but a considerable number incorrectly gave the balance on the bank statement, $1660, as the amount to be shown in the balance sheet.
Question 4

This question was answered well. It used a customer's statement of account with a business as the basis for questions about discount and payment dates and asked candidates to write up accounts in the ledger to reflect the transactions shown on the statement. As with all questions requiring calculation and writing up accounts, candidates need to pay close attention to detail: for example, entries in ledger accounts must be on the correct (debit or credit) side, and must show the correct narrative.

In part (a), most candidates gave an acceptable answer and explained that the purpose of sending a statement of account to a customer was to inform or remind the customer of the amount due, to confirm settlement terms, to summarise transactions, or to ensure no errors had been made by customer or supplier. A few candidates seemed to confuse a customer's statement of account with a bank statement and incorrectly gave reasons for sending a bank statement to a customer.

The answer to part (b)(i) was that Sam had deducted 2% discount from the amount due before making payment. In part (b)(ii), the correct answer was that Sam was not entitled to the discount as he had paid later than the 21 days allowed. Many candidates realised he had claimed the discount, and earned that mark, and although many stated he was not entitled to the discount, were then unable to explain the reason why. Some candidates became very confused about the amount due, and for which month and gave wholly incorrect answers.

Part (c)(i) required a calculation of 2% of the balance due at 30 September, $265 = $5.30. Those candidates who had realised this earned the available marks, and most then correctly worked out in part (c)(ii) that Sam would have paid $265.00 – $5.30 = $259.70. Some again became confused and thought the amount due was $657, others thought the sales returns needed to be deducted from the total, and some make arithmetical errors.

In part (d), although many candidates gave correct entries, some reversed the debit and credit entries, losing marks, included additional items such as unnecessary entries for discount, and gave incorrect narratives. Centres should note that although it is important to show correct dates, it is possible to earn most of the available marks even if dates shown are incorrect or dates are omitted.

The final part (e) of this question was very well answered by candidates who stated that in order to obtain the discount available, Sam should pay his account each month within 21 days. Answers which stated that he should pay by the due date, within the terms offered, or a similar description were acceptable, but answers stating he should pay promptly, quickly, or a similar comment, were not sufficient.

Question 5

This question dealt with the reason for charging depreciation on a non-current asset, 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.

Part (a) asked for one reason for charging depreciation on a non-current asset. Acceptable answers would include spreading the cost of the asset over the useful life so as not to overstate profits, or to account for the fall in value of the asset due to wear and tear, obsolescence or usage but very few candidates were able to explain these concepts in their own words. This was disappointing.

In part (b), candidates were asked to calculate depreciation for each of two given years. Most candidates correctly calculated the depreciation on the straight line method in parts (i) and (ii), but many then showed the net book value in their answers to (i) and also to (ii), which was not required and in fact gave the incorrect answer to the question. Candidates often find questions involving depreciation to be challenging but if they are well prepared, read the question and the requirement carefully, and give an accurate answer, they will earn the available marks.

Part (c) required the completion of the balance sheet entries for non-current assets and should have been straightforward using the figures from (b). In fact, a wide variety of figures were used, often confusing depreciation with scrap value, and often showing two separate years entries where only the balances at 30 September 2010 were required. Candidates should be aware that the net book value should always be the difference between the cost and the total provision for depreciation.
The correct balance sheet entries were:

<table>
<thead>
<tr>
<th>Martina</th>
<th>Balance Sheet at 30 September 2010 (extract)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Non-current (fixed) assets</td>
<td></td>
</tr>
<tr>
<td>Equipment (machine)</td>
<td>3200</td>
</tr>
</tbody>
</table>

Part (d) required the preparation of the disposals 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 equipment account</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
</tr>
<tr>
<td>October</td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>3 200</td>
</tr>
</tbody>
</table>

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

In part (e), candidates were asked to suggest which method and rate of depreciation should be used to avoid a loss on disposal after three years. Very few candidates realised that the annual rate of depreciation should be increased to 33⅓% each year if the straight line method continued to be used, and although many offered the reducing balance method as an alternative, few were able to give a convincing reason for their answer or to suggest a high enough rate of depreciation (75%) to fully depreciate the asset after three years.

**Question 6**

This question was designed to examine balance sheets using incomplete records. This which was a new topic, not previously examined. Candidates performed very well in general, and showed they did understand the purpose of a statement of affairs, but some did become confused when preparing the capital account, in which the balancing item was the net profit for the year. The total capital found from parts (a) and (b) are the opening and closing balances on the capital account, and the other items to be included are the drawings and the additional capital. Centres should note that when preparing an account, the correct narrative is important, so the narrative for the additional capital should be “bank” or “cash”, and not “capital.”

Most candidates correctly included the non-current assets, the current assets and the current liabilities in their opening and closing statements of affairs but had more difficulty with the increase in the provision for doubtful debts, perhaps not realising this would increase the current liabilities, and several incorrectly included the drawings and the additional capital in either or both statements of affairs.

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<table>
<thead>
<tr>
<th>The correct entries in the table were:</th>
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<tr>
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</tr>
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Martina
Balance Sheet at 30 September 2010 (extract)

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Provision for</th>
<th>Net book value</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td></td>
</tr>
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<th></th>
<th>2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposal of equipment account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>October 15</td>
<td>3 200</td>
<td>1 000</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td>Bank</td>
</tr>
<tr>
<td>October 15</td>
<td>15</td>
<td>1 000</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>Bank</td>
</tr>
<tr>
<td></td>
<td>31</td>
<td>Income statement</td>
</tr>
<tr>
<td>(Profit &amp; loss account)</td>
<td>1 800</td>
<td>3 200</td>
</tr>
</tbody>
</table>

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The correct entries in the table were:

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Decrease</th>
<th>No change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue (sales)</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Working capital</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ACCOUNTING

General comments

There was a large variation in candidates’ performance with more than 50% of the candidates achieving marks in the top ranges. 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. The majority of candidates clearly demonstrated their ability to perform accounting techniques and associated calculations. The candidates who achieved higher marks were also able to further explain the principles underlying the techniques and apply their accounting skills to suggest solutions or select appropriate actions.

Most of the multiple choice questions were well understood and the less well answered questions were those where candidates needed to distinguish between similar sounding accounting terms (e.g.; partners drawings/partners salary). The highest numbers of correct responses were on those questions related to the content of income statements and balance sheets. Question 2 was generally well answered question but with some weaker sections. Candidates frequently used the correct formula in calculations but did not always use the correct figures. Although the calculation of closing stock in Question 3 was a problem for many candidates the calculations for opening stock and purchases were the best answered questions in the whole paper. Candidates’ weakest question was invariably Question 4 and although candidates clearly knew how to prepare a trial balance many experienced difficulties with the definition. However, candidates had a very good understanding of how to produce an income statement. Question 5 produced some excellent answers especially in the preparation of the cash book. Most of the sections in Question 6 were well answered with the majority of candidates being aware of the different methods of depreciation.

Comments on specific questions

Question 1

This was still a relatively new section for the paper and consisted of a ten multiple choice items from across the syllabus which tested all of the skill levels. Evidence which suggests that candidates found some of these items quite challenging was the significant number of occasions when candidates had crossed out and amended answers. There was considerable variation in marks awarded and there seemed to be little correlation between the marks gained on this section and overall marks for the whole paper. Lack of familiarity with this type of question may be why some candidates had difficulties.

Question 2

This question tested candidates understanding of the business documents, accounting principles and accounting ratios. Most candidates were able to demonstrate some good understanding in these areas.

Part (a) required candidates to identify the document sent to a purchaser to record the value of goods purchased. The correct answer was sales invoice but invoice was also acceptable. The most common incorrect answer was statement.

Capital and revenue expenditure was tested in Part (b) and most candidates were able to correctly categorise at least two of the three items. The purchase of a new lock for shop door was the most frequent errors, presumably because candidates confused “new” with “replacement”. The correct answers were:
Candidates were asked to name the financial statement in which the provision for doubtful debts should be shown in part (c). This was not well answered as many candidates selected the income statement instead of the balance sheet. This would only have been correct if the question had asked for the “increase” in provision for doubtful debts.

When asked in Part (d) what is meant by the going concern basis most candidates identified the two key elements of the business “continuing” and for the “foreseeable future”. Good candidates identified both elements.

The majority of candidates were able to correctly name the error of principle as the type of error of entering a new motor car in the motor expenses account in Part (e). The calculation of dividend paid in Part (f) did produce a wide range of incorrect answers from candidates using wrong arithmetic techniques although the majority did recognise that $0.25 was the significant figure. The correct calculations were:

\[ 5000 \text{ shares} \times 0.25 = 1250 \]

Part (g) required candidates to calculate the prepayment on an insurance policy. Although this should have been a simple piece of arithmetic a significant amount of candidates got confused with the number of months involved. The correct calculations were:

- Premium for year = $600
- Period 1 July – 30 September is 3 months
- Expense = $600 / 4 = $150

Candidates were required to calculate Working Capital in part (h). This was well answered by well prepared candidates but a large proportion of candidates included non-current assets in their answer or incorrectly assumed the balance at bank was an overdraft. The correct calculations were:

\[ \text{Current assets} – \text{current liabilities} \\
= 15000 + 14500 + 16000 – 18200 = 27300 \]

The collection period for trade receivables (debtors) was tested in part (i). Frequent errors in this question were where candidates included cash sales or cash received in their answers. Many candidates also lost marks by not following the instructions in the question and gave their answer to two decimal places instead of whole days). The correct calculations were:

\[ \text{Collection period} = \frac{\text{trade receivables} \times \text{credit sales} \times 365 \text{ days}}{\text{trade receivables} \times \text{credit sales} \times 365 \text{ days}} \\
= \frac{13800}{126000} \\
= 39.97 = 40 \text{ days} \]
Question 3

This question tested candidates understanding of the divisions of the ledger and the correct valuation of inventory. The calculation of inventory produced some of the best answers in the whole paper and many candidates also had a good knowledge of double entry techniques.

Part (a) required candidates to write up accounts from journal entries. In general these were very well answered and a significant number of candidates obtained all, or very nearly all, the available marks. Unfortunately there were also many instances where candidates put the entries on the opposite side or gave inappropriate descriptions. Use of correct dates is very important in these accounts and candidates frequently neglected to enter all dates so in these cases their answers were not completely accurate. The correct entries were:

<table>
<thead>
<tr>
<th>Summa account</th>
<th>October</th>
<th>October</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Purchase return</td>
<td>100</td>
<td>5 Purchases</td>
</tr>
<tr>
<td>30 Bank</td>
<td>220</td>
<td>29 Purchases</td>
</tr>
<tr>
<td>31 Balance c/d</td>
<td>270</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>590</td>
</tr>
<tr>
<td></td>
<td>590</td>
<td></td>
</tr>
<tr>
<td></td>
<td>November</td>
<td></td>
</tr>
<tr>
<td>1 Balance b/d</td>
<td></td>
<td>270</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Carter account</th>
<th>October</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Bank</td>
<td>485</td>
<td>17 Purchases</td>
</tr>
<tr>
<td>31 Discount</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500</td>
<td>500</td>
</tr>
</tbody>
</table>

Parts (b) was very well answered as most candidates realised that the inventory was to be valued at cost price which involved fairly straightforward multiplication of the figures shown. Part (c) did not produce as many fully correct answers as few candidates applied the principle that inventory should be valued at the lower of cost and net realisable value. The correct calculations were:

(b) (i) 200 units x $2.80 = 560.00
(ii) 100 units x $3.20 = 320.00
130 units x $3.10 = 403.00
120 units x $2.90 = 348.00
1071.00

(c) 130 units x $3.00 (NRV) = 390.00
120 units x $2.90 (cost) = 348.00
250 738.00

Question 4

This question on trial balances and Income statements proved to be very easy for many candidates, although only a small proportion got the income statement completely correct. The question also tested accounting principles and dealing with cash flow problems.

Part (a) required candidates to define a trial balance. The expected answer was “a trial balance is a list of balances on the accounts in the books/ledgers/records at a particular date, used to check the accuracy of accounts”. Not many candidates produced the full definition but many provided significant parts of it and tended to state the purpose of a trial balance rather than provide a definition.

In Part (b) candidates were required to prepare an income statement from the figures supplied. This was very well answered and there was an excellent knowledge of the layout of income statements although common errors were to ignore the bank charges or incorrect calculation of prepayments.
Gorman Limited
Income statement (trading and profit and loss account)
Year ended 30 September 2010

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$92,000</td>
</tr>
<tr>
<td>Inventory at 1 October 2009</td>
<td>$13,900</td>
</tr>
<tr>
<td>Purchases</td>
<td>$70,300</td>
</tr>
<tr>
<td>Carriage inwards</td>
<td>$600</td>
</tr>
<tr>
<td>Less: inventory at 30 Sept 2010</td>
<td>$14,300</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>$70,500</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$21,500</td>
</tr>
<tr>
<td>Rent</td>
<td>$2,600</td>
</tr>
<tr>
<td>Electricity</td>
<td>$850</td>
</tr>
<tr>
<td>Property tax (1500-300)</td>
<td>$1,200</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>$5,750</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>$1,100</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>$4,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$1,700</td>
</tr>
<tr>
<td>Bank charges</td>
<td>$120</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>$17,320</td>
</tr>
<tr>
<td></td>
<td>$4,180</td>
</tr>
</tbody>
</table>

For **Part (c)**, candidates were asked to identify which accounting principle had been applied in the income statement. In **part (ci)** answers of prudence, consistency, lower of cost and net realisable value were all acceptable and in **part (cii)** answers of accruals or matching were correct. Far more candidates were able to recognise “prudence” in **part (ci)** than “matching in **part (cii)**.

**Part (d)** required candidates to calculate the rate of inventory (stock) turnover. Few candidates got the answer completely right but most did provide the figure for average stock, errors were generally through applying the formula upside down or using a figure other than cost of goods sold.

Rate of inventory (stock) turnover = cost of goods sold / average stock

\[
= \frac{70,500}{(13,900 + 14,300) / 2}
\]

= 5 times

Candidates had an opportunity to demonstrate application of knowledge in **part (e)** as they were asked to suggest ways in which overdrafts could be eliminated. Acceptable answers were collect receivables, reduce inventory, delay payment of payables, or reduce expenses. Common answers were to invest more capital or take out a loan to provide more funds; neither of these was accepted as they would only provide a short term solution without recognising or removing the need to improve cash flow on a continuing basis.

**Question 5**

This question involved discounts, the cash book and the petty cash book. This was a well answered question with candidates demonstrating a good understanding in all of the sections covered.

In **part (a)**, candidates were asked to identify the types of discount and calculate the discount on transactions. Cash and trade discount were well understood and calculations were generally correct. Many candidates performed the technique correctly but used the net amount (after discount) instead of the gross amount in their workings. The correct calculations were:

Cash discount, 3% x $300 = $9.00 (or 3/97 x 291)
Trade discount, 5% x $2000 = $100.00 (or 5/95 x 1900)

**Part (b)** required the candidate to complete a cash book. This was a very well answered question and entries were generally made on the correct side with the correct details. More able candidates also entered the correct amounts for discount although credit was given where candidates used their own (incorrect) figures from **part (a)**. The correct entries were:
Part (ci) requested candidates to calculate the amount of cash there should have been in the petty cash box. This was also well understood but some candidates did not show any of their workings so it was often not possible to give credit for what may have been partially correct answers. The correct answer was:

\[ \$300 - \$270 = \$30 \]

In part (cii), candidates were asked to suggest reasons why there was a difference in the petty cash amount book and the expected amount. This was also well answered and candidates showed a good knowledge of possible problems facing the cashier. Acceptable answers were:

Lost or missing voucher; Lost or stolen cash; Error brought forward or in counting cash; Amount not recorded

Candidates were asked to calculate the amount transferred from the bank to restore the imprest in part (ciii). Candidates were normally very clear what this meant and involved with a very large proportion achieving full marks. Some candidates did confuse the amount in vouchers with the imprest amount but most of these did understand the calculation required. The correct answer was:

\[ \$300 - \$20 = \£280 \]

Question 6

This question covered bookkeeping entries using the journal and methods of depreciation.

Part (a) required candidates to record journal entries for a number of transactions related to setting up a new business. Candidates were well versed in double-entry skills and invariably made the entries on the correct side of the journal. There was a good understanding of the accounts involved except that some candidates did not realise that most of the transactions were financed by capital. Common errors were to record the double entry of the petty cash as bank instead of capital.

The correct entries were:

\[ \begin{array}{lcl}
\text{Norman – Journal} \\
\text{Office furniture} & 1 500 \\
\text{Inventory (stock)} & 12 000 \\
\text{Bank} & 2 300 \\
\text{Cash} & 200 \\
\text{Capital – Norman} & 16 000 \\
\text{Bank} & 3 000 \\
\text{Loan – Peter} & 3 000 \\
\end{array} \]

Methods of depreciation were tested in Part (b) and very many candidates were able to correctly name two methods of depreciation. Straight line and reducing balance were the most common answers but credit was also given for revaluation method and diminishing balance. Candidates were expected to know the correct titles so answers of just “reducing” or “diminishing” were not acceptable.
Candidates were asked to select which of the methods of depreciation would be most suitable for the situation provided in **part (c)**. This was a more challenging task but many candidates correctly selected the straight line method. More able candidates also correctly explained their choice by recognising that the furniture had an expected useful life with no scrap value, consequently depreciation could be spread consistently across its useful life using this method.
General comments

Although there were many very good answers, it appeared that some candidates found the question paper challenging. Overall, there was a considerable range of responses, with the more able candidates giving good answers and finding some higher level parts of the questions to demonstrate their abilities whilst less well prepared candidates were still able to find some accessible marks from the question paper.

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. The topic of limited company accounts has been included on the syllabus: many candidates need to pay particular attention to this topic.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Where a question specifies a number of items required, for example, “Suggest three ways ...........”, “State one reason ..........”, candidates are expected to follow these instructions. If it is not acceptable to provide a list of several reasons and expect the Examiner to select the correct one(s).

It is important to read through each question very carefully before attempting an answer. Marks may be lost if instructions are not followed. For example, marks were lost when candidates failed to follow an instruction to calculate ratios to two decimal places. Similarly, failing to illustrate an answer with reference to a previously prepared account resulted in the loss of marks.

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

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

Comments on specific questions

Question 1

Using a trial balance and additional information, candidates were required to prepare an income statement (trading and profit and loss account) of a sole trader. Candidates are reminded of the importance of correctly identifying figures. For example, “CS” is not acceptable as a label for the cost of sales; “PD” is not acceptable as a label for the provision for doubtful debts; “DMV” is not acceptable as a label for the depreciation of motor vehicles.

The calculation of the closing inventory (stock) proved to be difficult for some candidates. Many incorrectly used a figure of 125% of the opening inventory (stock). Using the information provided, the gross profit of $43 200 could be calculated (20% of the revenue (sales)). The cost of sales was $172 800 (the difference between the revenue (sales) and the gross profit). Having calculated these figures it is possible to work back to the missing figure of closing inventory (stock) which should have been $20 800. It is important to remember that if a trader takes goods for his/her own use, these are deducted from the purchases.
A large number of candidates correctly added the bad debts recovered and the decrease in the provision for doubtful debts to the gross profit. It must be remembered that, where a provision is adjusted, only the difference between the existing provision and the new provision is included.

The calculation of the property and insurance for the year caused some problems. The total for the year should have been $8300 ($8900 less $600 insurance which was prepaid). Those candidates who showed calculations were able to earn a mark for the figure of $8900 even though the final figure was incorrect.

Depreciation of equipment, $660, was usually correctly included. The depreciation of the motor vehicles should have been $960 (20% of $6000 - $1200). The provision for depreciation of $1200 which appeared in the trial balance represents the total depreciation to the end of the previous financial year and should not be included as an expense of the current year.

**Question 2**

This question involved the preparation of a sales ledger control account and some related theory questions. Candidates were also required to calculate and comment on the collection period for trade receivables (debtors).

(a) Two advantages of preparing control accounts were required. Most candidates provided two acceptable answers. It must be remembered that the preparation of control account does not actually prevent fraud occurring or errors being made: they only reduce the possibility of fraud and assist in the location of errors. Control accounts are used to check the sales and purchases ledgers, they are not used to ascertain the figures for credit sales and credit purchases.

(b) Candidates had to select relevant figures and prepare a sales ledger control account. There were many wholly correct answers. A few candidates included purchases ledger control account items and the provision for doubtful debts which does not appear in either of the control accounts. The contra entry was often incorrectly entered on both sides of the account. This should have been credited to the sales ledger control account and the corresponding debit would be in the purchases ledger control account.

(c) The meaning of, and reason for making, a contra entry in connection with control accounts was required. A number of candidates ignored the instruction regarding control accounts and discussed contra entries in connection with cash books.

(d) An explanation of why information used to prepare a sales ledger control account if obtained from books of prime entry was required. An error made in the sales ledger would not be revealed by a control account prepared from the accounts within the sales ledger: to act as a check on the ledger the information must be obtained from elsewhere. Candidates often incorrectly stated that the sales ledger did not contain all the information required or that the books of prime entry were completely accurate.

(e) A calculation of the collection period for trade receivables (debtors) was required. There were many wholly correct responses. A few candidates incorrectly based the calculation on the credit sales, the opening balance on the control account or the totals of the control account.

(f) Three ways to improve the collection period for trade receivables (debtors) were required. Most candidates provided two or three acceptable answers. Allowing cash discount for early payment and charging interest on overdue accounts were popular correct responses. Candidates are reminded of the importance of precise answers in this type of question. For example “give discount” and “charge interest” were not regarded as adequate answers.

**Question 3**

This question included the preparation of an expense account, theory questions on the division of the ledger, interested parties and the limitations of financial statements (final accounts).

(a) Candidates were required to state the ledger in which three named accounts would appear. It was expected that this would be a relatively easy question for candidates, but it would appear that a number of candidates need further study on this topic.
(b) Using information provided, candidates were required to write up the rent account in the ledger of a trader. There were some very good answers. It is important to use the correct terminology within a ledger account. “Owing”, “bd” and “cd” are not regarded as acceptable alternatives for “balance”. The expense for the year should be transferred to the income statement (profit and loss account).

(c) An explanation of the accruals (matching) principle was required, using the entries in the rent account as illustrations. Most candidates were able to explain that the revenue of the accounting period must be matched against the costs of the same period. Some candidates incorrectly believed that revenue should equal expenses. Some candidates described accrued expenses rather than the accounting principle of accruals (matching).

Using the rent account to illustrate the principle, candidates should have explained that the rent for the financial year ($1590) should be transferred to the income statement (profit and loss account). The rent paid during the year relating to the previous financial year is not included, but the rent outstanding at the end of the financial year is included.

(d) Candidates were required to list two business people (excluding the owner) who would be interested in the financial statements (final accounts) of a sole trader. The vast majority of candidates provided appropriate answers and gained good marks on this question. Marks were lost by candidates suggesting shareholders, directors and partners: the question clearly stated that this was a sole trader’s business. A few candidates also suggested the owner of the business, despite an instruction to exclude the owner of the business. Candidates are reminded that precise answers are required. Answers such as “to see if the business needs a loan” and “to see if we can sell goods to him” were not regarded as adequate explanations.

(e) Two limitations of financial statements (final accounts) were provided and candidates were asked to explain why they are regarded as limitations.

There was some understanding on non-financial aspects. Many candidates did explain that only items that can be expressed in monetary terms can be included in the accounting records and were able to provide an appropriate example. However, the effect of such items not appearing in the accounting records was not always explained.

A number of candidates explained that historical cost means that transactions are always recorded at the actual cost and many used the example of non-current (fixed) assets. Once again, the effect of this was often not explained.

**Question 4**

This question was based on the accounts of limited companies involving theory questions and short calculations. Candidates were also required to calculate capital employed and to calculate and comment on the return on capital employed (ROCE). It is important that candidates have an understanding of the basic terms and principles used in connection with limited liability companies.

(a) Candidates were required to explain the terms authorised share capital and paid-up share capital. There were a large number of vague and imprecise answers. Candidates should know that share capital relates to a limited company and not to a partnership. Some candidates also confused share capital with dividends paid to shareholders.

(b) Calculations showing the dividend paid on preference shares, interest paid on debentures and dividend to be paid on ordinary shares were required. The calculation of the debenture interest was often correctly calculated. Many candidates incorrectly calculated the share dividends based on the authorised share capital rather than the issued share capital. Other candidates incorrectly showed a total of a dividend calculated on the authorised share capital plus a dividend calculated on the issued share capital.

(c) A table had to be completed to indicate where the share dividends and the debenture interest would appear in the financial statements of a limited company. Most candidates gained some of the available marks.

(d) Candidates were expected total the issued share capital and the debentures to ascertain the capital employed. A common incorrect answer was $55 000 (the total of the share capital only).
Using a given profit figure and the capital employed calculated in (d) candidates were required to calculate the return on capital employed (ROCE). The majority of candidates earned at least one of the available marks for a calculation based on their own capital employed figure. The instruction to show the answer correct to two decimal places was occasionally ignored.

A comment on the return on capital employed (ROCE) was required. An increase in the return on capital employed (ROCE) indicates that the company is employing the resources more efficiently. It does not necessarily imply that the profit has increased. Candidates are advised that, in addition to being able to calculate ratios, they must also be able to interpret those ratios.

Question 5

This question concentrated on the topic of partnership accounts, together with a calculation of the current ratio, with short theory questions on working capital and the quick ratio.

(a) Candidates were asked to state one reason for a partner wishing to amend a partnership agreement to enable her to receive a salary. A few candidates repeated the question and others concentrated on disagreements and disputes. It was expected that candidates would explain that the salary would compensate for the work the partner did in the partnership.

(b) Using data provided, a partnership balance sheet had to be prepared. Candidates were advised that the calculation of the current account balances could be included within the balance sheet or shown as separate ledger accounts.

The majority of candidates correctly showed the non-current (fixed) assets, the current assets and the current liabilities, but often did not label the net current assets (working capital). Candidates need to be aware of the importance of showing the capital and current account of each partner separately: far too often the capital and current account of each partner was combined. Some candidates incorrectly combined the capital accounts, added the total profit for the year and deducted the total drawings.

(c) A calculation of the current ratio was required. Most candidates gained full marks on this question.

(d) Two ways of improving the working capital of the business were required. There were a large number of acceptable answers. Candidates should be aware that changes within the working capital (such as increasing stock or paying trade payables (creditors)) will not result in an overall increase in the working capital.

(e) Candidates were asked to explain why the quick ratio is a more reliable indicator of liquidity than the current ratio. The vast majority of candidates were aware that the quick ratio does not include inventory (stock) and many were able to explain the implications of this on the liquidity of the business.

Question 6

Candidates were firstly required to calculate and interpret the percentage of gross profit to sales. The rest of the question concentrated on errors and candidates were required to prepare a suspense account, answer a related theory question and prepare a statement of profit correction.

(a) Most candidates successfully calculated the gross profit and then expressed this as a percentage of the sales. A minority of candidates did not follow the instruction to show the answer correct to two decimal places.

(b) Candidates were required to suggest two reasons why the percentage of gross profit to sales had increased. The answers should have concentrated on changes in the selling price and the cost price: changes in quantities do not affect the gross profit percentage. A number of candidates incorrectly included changes in expenses.

(c) Using the difference in a trial balance and a list of errors subsequently discovered, candidates were required to prepare a suspense account. There was a wide range of answers. Candidates need to develop a thorough understanding of the role of suspense accounts and the type of entries which should be included.
(d) Candidates were asked to select one of the errors and explain why it was not corrected by an entry in the suspense account. Error number 2 (error of commission) or error number 3 (error of principle) should have been selected. The omission of the bank overdraft from the trial balance was a common incorrect response.

(e) A calculation of the corrected profit for the year was required. This was well-done with many candidates earning full marks. Despite correctly indicating the adjustments required some candidates made arithmetical errors and their final profit was incorrect.
General comments

Although there were many very good answers, it appeared that some candidates found the question paper challenging. Overall, there was a considerable range of responses, with the more able candidates giving good answers and finding some higher level parts of the questions to demonstrate their abilities whilst less well prepared candidates were still able to find some accessible marks from the question paper.

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Marks were lost by candidates suggesting shareholders, directors and partners: the question clearly stated that this was a sole trader’s business. A few candidates also suggested the owner of the business, despite an instruction to exclude the owner of the business. Candidates are reminded that precise answers are required. Answers such as “to see if the business needs a loan” and “to see if we can sell goods to him” were not regarded as adequate explanations.

(e) Two limitations of financial statements (final accounts) were provided and candidates were asked to explain why they are regarded as limitations.

There was some understanding on non-financial aspects. Many candidates did explain that only items that can be expressed in monetary terms can be included in the accounting records and were able to provide an appropriate example. However, the effect of such items not appearing in the accounting records was not always explained.

A number of candidates explained that historical cost means that transactions are always recorded at the actual cost and many used the example of non-current (fixed) assets. Once again, the effect of this was often not explained.

Question 4

This question was based on the accounts of limited companies involving theory questions and short calculations. Candidates were also required to calculate capital employed and to calculate and comment on the return on capital employed (ROCE). It is important that candidates have an understanding of the basic terms and principles used in connection with limited liability companies.

(a) Candidates were required to explain the terms authorised share capital and paid-up share capital. There were a large number of vague and imprecise answers. Candidates should know that share capital relates to a limited company and not to a partnership. Some candidates also confused share capital with dividends paid to shareholders.

(b) Calculations showing the dividend paid on preference shares, interest paid on debentures and dividend to be paid on ordinary shares were required. The calculation of the debenture interest was often correctly calculated. Many candidates incorrectly calculated the share dividends based on the authorised share capital rather than the issued share capital. Other candidates incorrectly showed a total of a dividend calculated on the authorised share capital plus a dividend calculated on the issued share capital.

(c) A table had to be completed to indicate where the share dividends and the debenture interest would appear in the financial statements of a limited company. Most candidates gained some of the available marks.

(d) Candidates were expected total the issued share capital and the debentures to ascertain the capital employed. A common incorrect answer was $55 000 (the total of the share capital only).
Using a given profit figure and the capital employed calculated in (d), candidates were required to calculate the return on capital employed (ROCE). The majority of candidates earned at least one of the available marks for a calculation based on their own capital employed figure. The instruction to show the answer correct to two decimal places was occasionally ignored.

A comment on the return on capital employed (ROCE) was required. An increase in the return on capital employed (ROCE) indicates that the company is employing the resources more efficiently. It does not necessarily imply that the profit has increased. Candidates are advised that, in addition to being able to calculate ratios, they must also be able to interpret those ratios.

Question 5

This question concentrated on the topic of partnership accounts, together with a calculation of the current ratio, with short theory questions on working capital and the quick ratio.

(a) Candidates were asked to state one reason for a partner wishing to amend a partnership agreement to enable her to receive a salary. A few candidates repeated the question and others concentrated on disagreements and disputes. It was expected that candidates would explain that the salary would compensate for the work the partner did in the partnership.

(b) Using data provided, a partnership balance sheet had to be prepared. Candidates were advised that the calculation of the current account balances could be included within the balance sheet or shown as separate ledger accounts. The majority of candidates correctly showed the non-current (fixed) assets, the current assets and the current liabilities, but often did not label the net current assets (working capital). Candidates need to be aware of the importance of showing the capital and current account of each partner separately: far too often the capital and current account of each partner was combined. Some candidates incorrectly combined the capital accounts, added the total profit for the year and deducted the total drawings.

(c) A calculation of the current ratio was required. Most candidates gained full marks on this question.

(d) Two ways of improving the working capital of the business were required. There were a large number of acceptable answers. Candidates should be aware that changes within the working capital (such as increasing stock or paying trade payables (creditors)) will not result in an overall increase in the working capital.

(e) Candidates were asked to explain why the quick ratio is a more reliable indicator of liquidity than the current ratio. The vast majority of candidates were aware that the quick ratio does not include inventory (stock) and many were able to explain the implications of this on the liquidity of the business.

Question 6

Candidates were firstly required to calculate and interpret the percentage of gross profit to sales. The rest of the question concentrated on errors and candidates were required to prepare a suspense account, answer a related theory question and prepare a statement of profit correction.

(a) Most candidates successfully calculated the gross profit and then expressed this as a percentage of the sales. A minority of candidates did not follow the instruction to show the answer correct to two decimal places.

(b) Candidates were required to suggest two reasons why the percentage of gross profit to sales had increased. The answers should have concentrated on changes in the selling price and the cost price: changes in quantities do not affect the gross profit percentage. A number of candidates incorrectly included changes in expenses.

(c) Using the difference in a trial balance and a list of errors subsequently discovered, candidates were required to prepare a suspense account. There was a wide range of answers. Candidates need to develop a thorough understanding of the role of suspense accounts and the type of entries which should be included.
(d) Candidates were asked to select one of the errors and explain why it was not corrected by an entry in the suspense account. Error number 2 (error of commission) or error number 3 (error of principle) should have been selected. The omission of the bank overdraft from the trial balance was a common incorrect response.

(e) A calculation of the corrected profit for the year was required. This was well-done with many candidates earning full marks. Despite correctly indicating the adjustments required some candidates made arithmetical errors and their final profit was incorrect.
General Comments

Although there were many very good answers, it appeared that some candidates found the question paper challenging. Overall, there was a considerable range of responses, with the more able candidates giving good answers and finding some higher level parts of the questions to demonstrate their abilities whilst less well prepared candidates were still able to find some accessible marks from the question paper.

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. The accounts of limited company have been included on this syllabus: many candidates need to pay particular attention to this topic.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Where a question specifies a number of items required, for example, “State two causes ........”, Name one 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).

It is important to read through each question very carefully before attempting an answer. Marks may be lost if instructions are not followed. For example, marks were lost when candidates failed to follow an instruction to calculate ratios correct to two decimal places. Similarly, failing to provide narratives for journal entries resulted in the loss of marks.

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

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 based on the accounts of limited companies. The balance sheet of a limited company was required, together with some theory questions about shares and debentures. It is important that candidates have an understanding of the basic principles of limited liability companies.

(a) Using the information provided, candidates were required to prepare the balance sheet of a limited company. Many candidates were able to produced balance sheets in good form, clearly showing the non-current (fixed) assets, current assets and current liabilities. A few failed to label the difference between current assets and current liabilities as net current assets (working capital). Other errors included the omission of the proposed dividends and failing to correctly identify the provision for doubtful debts.

The non-current (long-term) liabilities and the capital and reserves sections of the balance sheet tended to be the areas where errors were made. It is important to remember that debentures are long-term loans and should not be included within the capital section of a balance sheet. Within
the capital and reserves section, the different types of shares should be itemised followed by the balance on the general reserve and the retained profits (profit and loss account).

(b) Two differences between ordinary shares and preference shares were required. Some candidates provided clear answers showing an understanding of the two types of shares. Candidates need to provide precise responses rather than vague statements. It was not regarded as acceptable to state “preference shares are paid before ordinary shares”. It is necessary to explain that 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. Some candidates confused interest and dividends, or stated that preference shareholders receive a fixed percentage of the profit.

(c) Two features of debentures were required. Most candidates correctly stated that debentures are loans and many appeared to know that interest, rather than dividend, is paid to debenture holders.

Question 2

This question required candidates to explain the entries in a ledger account, identify some accounting principles, answer questions about the division of the ledger, and, finally, to calculate and comment on an accounting ratio.

(a) Candidates were required to explain some entries in the capital account of a sole trader and to state where the double entries would be made. Many candidates were able to identify the correct double entries for the various transactions but the explanations of the entries were often imprecise.

The first item should have been identified as the entry required when the trader introduced additional capital and that money was paid into the bank account of the business. The second entry represented goods withdrawn by the trader for personal use. The last entry was necessary because the expenses of the business exceeded the gross profit so that the trader’s capital reduced because of the loss for the year.

(b) The significance of the balance on the capital account had to be explained. It was not regarded as adequate to state that this was the balance of the account as that should be obvious from the question. It should have been explained that this represented the capital at the end of the financial year/at the start of the new financial year, which represents the amount owed by the business to the owner of the business.

(c) Most candidates successfully explained the business entity principle. A few candidates stated that a business is a separate legal entity to the owners of that business: whilst this may be true for a limited company, it is not true for all types of businesses.

Many candidates were able to provide a suitable example from the capital account provided in the question.

(d) Most candidates successfully identified the statement as being an application of the principle of duality. “Double entry” was not regarded as an acceptable answer as this is not the name of an accounting principle.

(e) Most candidates successfully identified the statement as being an application of the principle of money measurement.

(f) Two advantages of dividing the ledger into three sections were required. Most candidates were able to suggest one or two acceptable advantages.

(g) Candidates were asked to state the source of three items appearing in a purchases ledger control account. A significant number of candidates did not answer the question asked, but instead stated where the items would appear in the purchases ledger control account.

(h) The vast majority of candidates correctly calculated the payment period for trade payables (creditors) as 70 days. Many candidates provided acceptable explanations of the effect of the collection period for trade receivables (debtors) on the payment period for trade payables (creditors).
Question 3

This question was based on the accounting records of clubs and societies. Candidates were required to prepare an income statement (trading account), an income and expenditure account and to answer a related theory question.

(a) A shop income statement (trading account) was required. Most candidates correctly entered the revenue (sales) and the purchases. It was, however, common for the outstanding amount for purchases to be omitted. Candidates are reminded that any expenses directly relating to the trading activity should be included in the income statement (trading account). The wages of the shop assistant and the rent of the shop should have been added to the cost of the goods in order to calculate the total cost. These items should not also be included in the income and expenditure account.

(b) Candidates were required to prepare an income and expenditure account. Many well-presented accounts were produced. Some marks were lost for the totals of the subscriptions and the general expenses: if calculations had been shown some of the available marks may have been awarded. The profit on the open day (the difference between the ticket sales and the expenses) should really be shown rather than the ticket sales appearing in the income section and the expenses in the expenditure section. The profit on the shop calculated in the income statement (trading account) should have been transferred to the income and expenditure account.

(c) One reason why the surplus or deficit for the year did not equal the bank balance was required. The answer should have concentrated on the differences between an income and expenditure account and a receipts and payments account. It was very common to find wholly incorrect answers relating to the differences between the cash book balance and the bank statement balance.

Question 4

This question concerned depreciation and disposal of non-current (fixed) assets.

(a) A definition of depreciation was required. The majority of candidates provided an acceptable definition, though a few struggled to express themselves clearly.

(b) Two causes of depreciation were required. Most candidates provided correct answers, wear and tear and obsolescence being popular correct responses.

(c) Candidates were required to name and explain one accounting principle which is applied when providing depreciation for non-current (fixed) assets. Prudence or accruals (matching) were usually correctly identified and a suitable explanation provided.

(d) Using the data provided, candidates were required to prepare ledger accounts for equipment and provision for depreciation of equipment. Most candidates used "T" account format, but three column running balance accounts were equally acceptable. Generally the equipment account was well-prepared, but some problems occurred in the provision for depreciation account, especially with the calculation of the depreciation for the second year. Once again, some of the available marks may have been awarded if a calculation had been provided. Candidates are reminded that no depreciation is recorded in the asset account: the depreciation only appears in the provision for depreciation account.

(e) The journal entries required to record the disposal of equipment were required. There was a very wide range of answers. Many candidates need to study journal entries in greater depth to ensure that they understand the principles involved. A journal entry shows the names of the ledger accounts and the relevant amounts which are to be debited and credited. A narrative should be included to explain the reason for the entry.
Question 5

This question involved the calculation and interpretation of ratios and also questions relating to the inventory (stock) of a business.

(a) Candidates were required to calculate the percentage of gross profit to sales, the percentage of net profit to sales and the return on capital employed (ROCE). These calculations were usually well done, especially the first two, though some candidates incorrectly used the cost of sales rather than the sales. Candidates are reminded of the importance of following the instruction to provide an answer correct to two decimal places.

(b) Three reasons why each of the ratios was important to the trader were required. Candidates should not only be able to calculate ratios, but need to understand the meaning and importance of those ratios to a business. This is necessary for candidates to improve their performance when answering questions of this nature.

(c) An explanation of the difference between cost and net realisable value of inventory (stock) was required. Answers were often limited to a statement that cost is the original purchase price and net realisable value is the selling price. It is important that candidates are aware that the cost also includes any costs in bringing the inventory (stock) to its present condition and location. Net realisable value is the estimates receipts from the sale of the goods less any costs of completing or selling.

(d) Candidates were required to explain why a trader used the net realisable value of his closing inventory (stock) rather than the cost price. Most candidates knew that inventory (stock) is always valued at the lowest value. However, it is also important to know why this policy is followed. Applying the principle of prudence ensures that the inventory (stock) and the profit for the year are not overstated.

(e) A table had to be completed to indicate of over-valuing the opening inventory (stock) on the cost of sales, gross profit and profit for the year. This was usually very well done.

(f) Two ways to improve rate of inventory (stock) turnover were required. There was a wide variety of answers. Reducing inventory (stock) levels and increasing sales activity were popular correct answers.