ACCOUNTING

Key Messages

Question 1 consisted of ten multiple choice items, covering topics across the whole syllabus.

In Question 2 candidates were given some short-answer questions, requiring knowledge of accounting terms, and a calculation of depreciation using two different methods.

The main topic of Question 3 was trial balance. A table had to be completed to show whether items were debits or credits in a trial balance and to name the balance sheet section in which the items would appear. Short theory questions on errors not revealed by a trial balance and the reason for calculating profit were also included.

Question 4 required the preparation of two expense accounts, updating a cash book and the preparation of a bank reconciliation statement. Short theory questions were also included.

Question 5 concentrated on the topic of clubs and societies. A subscriptions account had to be prepared followed by an income statement for the club’s refreshments. An income and expenditure account and a balance sheet were also required.

In Question 6 candidates were required to prepare an amended income statement and to offer advice regarding the purchase of new equipment. Calculations of the return on capital employed (ROCE) were also included.

It is important for teachers and candidates to be aware that candidates are expected to use “new” terminology in future examinations.

General Comments

All the questions on this examination paper were compulsory and covered various topics on the syllabus. It was anticipated that candidates would be able to attempt all the questions.

Candidates are reminded that a question can be set on any section of the syllabus, and a thorough knowledge of all sections of the syllabus is necessary to achieve a good grade in the examination.

It is important to work through questions on past examination papers and appropriate exercises in textbooks.

A number of candidates lost marks as they provided an incorrect figure without supporting calculations.

Candidates are advised to read through a question very carefully before attempting an answer.

It is important to read through a question carefully before attempting an answer. Candidates are advised to think carefully about the answers they provide: this would often result in more marks being earned. It should be obvious that a dividend per share of 8% per would not exceed the face value of the share. Similarly, it should be obvious that a credit supplier is not an asset.
The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

The multiple choice questions in this part covered various sections of the syllabus. As usual there was a wide range of marks, with some candidates earning all the available marks.

Part (b) was a negative question, but it was anticipated that candidates would be able to understand the entries in the account and decide that the untrue statement was option D. A large number of candidates found (c) somewhat challenging. If a prepaid expense has not been recorded both the profit for the year and the current assets will be understated.

In (e) it was evident that candidates understood that inventory is valued at the lower of cost and net realisable value, but many candidates did not know how to treat the selling expenses. Part (g) required candidates to calculate a partnership’s profit for the year. This involved deducting the business expenses from the gross profit. Loan interest is regarded as an expense, even if it is paid to a partner, but a salary paid to a partner is an appropriation of profit not an expense.

Question 2

(a) Candidates were asked to state two items which might be deducted from profit in the appropriation account of a limited company. Many candidates correctly suggested share dividends and transfers to reserve. Other candidates incorrectly suggested “shares” and “reserves.” Some wrongly suggested expenses which would appear in the income statement or items which would appear in an appropriation account of a partnership.

(b) An explanation of the term “limited liability” was required. Many candidates were able to offer suitable comments about the liability of shareholders being limited to the amount they agree to pay for their shares. A number of candidates discussed the company’s own liability for debts.

(c) Three sentences about limited companies were provided and a missing word had to be inserted into each sentence. Some candidates had problems in selecting the appropriate words.

(d) A company had an issued share capital of 1 million shares of $0.50 each and a dividend of 8% was declared. Candidates were required to calculate the dividend per share. It was expected that candidates would correctly calculate 8% of $50 000 and divide the answer by 1 000 000 to arrive at the dividend per share of $0.04.

(e) An explanation of the purpose of depreciation was required. Many candidates incorrectly referred to spreading the value — rather than the cost — of non-current assets over their useful life.

(f) Candidates were required to calculate the net book value of a non-current asset after two years, using the straight line and the reducing balance method of depreciation. Many candidates provided correct responses. Other candidates lost marks when they calculated the depreciation rather than the book value, or stated the book value at the end of the first year only.

(g) One other method of depreciation had to be stated. Many candidates correctly suggested the revaluation method and were able to offer a suitable example.

(h) Most candidates were able to name the disposal account as being the account opened when a business sells a non-current asset. A few incorrectly named a ledger rather than an account.
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(a) Candidates were required to suggest two reasons why a trade wants to know his profit for the year. Many were able to provide acceptable suggestions and gained full marks. Some candidates reiterated the question and others incorrectly discussed liquidity.

(b) A table had to be competed to show indicate where six items would appear in a trial balance and the balance sheet section in which those items would appear. Many candidates earned full marks for this question. Common errors were to show provision for doubtful debts and provision for depreciation as debits in the trial balance. Drawings appear in the capital section of the balance sheet and provision for depreciation appears in the non-current assets section.

(c) Two errors which would not affect the balancing of a trial balance were required, together with appropriate examples. Many candidates provided wholly acceptable responses. A few confused errors or commission and principle. A common incorrect example of a compensating error was sales being overstated and purchases being understated by the same amount.

Question 4

(a) Candidates were required to complete a table to show which party to a transactions issued four business documents. There were many wholly correct responses. A number of candidates confused the credit note and the debit note.

(b) Using information provided, an insurance account had to be prepared. Candidates are reminded of the importance of correct dates and details. The account should have started with an opening debit balance of $200. The amount paid should have been debited. The expense for the year ($1300) should have been transferred from the credit side of the account to the income statement. This should have left a balance to be brought down to the debit side of $220.

(c) Using information provided, a stationery account had to be prepared. Once again, the importance of correct dates and details must be emphasised. The account should have started with a debit balance of $60. The amount paid should have been debited. The expense for the year ($760) should have been transferred from the credit side of the account to the income statement. The balance of $110 should have been carried down from the credit to the debit side of the account.

(d) Candidates were asked to name an account or statement, in addition to a bank reconciliation statement, which might be prepared to check for errors. Correct responses included control accounts and a trial balance. A significant number of candidates incorrectly suggested suspense accounts or an updated cash book.

(e) Using information provided, candidates were required to update a trader’s cash book. Many candidates produced good answers. A common error was to use incorrect descriptions. Candidates are reminded that the details column should contain the name of the account where the corresponding entry is to be made. “Direct debit” and “standing order” are not acceptable.

(f) A statement had to be produced reconciling the up-dated cash book balance with the balance shown on the bank statement. Though some candidates produced good answers, many candidates lost marks because of inappropriate labelling of the items. For example, “Balance” is not adequate as this does not indicate whether it is the balance in the cash book or the balance on the bank statement. The weaker candidates were unsure of the correct treatment for the cheques not presented and the amounts the credited.

Question 5

(a) Using information provided a subscriptions account had to be prepared. Many candidates found this difficult. This would seem to be a topic where candidates would benefit from further practice. The account should have started with a debit balance of $60 (the subscriptions in arrears) and a credit balance of $40, the subscriptions in advance. Subscriptions received during the year should have been credited. Subscriptions written off should have been credited. There were two closing balances: the amount paid in advance should have been debited and carried down as a credit balance, and the amount in arrears should have been credited and carried down as a debit balance.
balance. The difference on the account represented the subscriptions for the year and should have been transferred to the income and expenditure account. Many candidates included completely unrelated items such as sales of refreshments and purchases of equipment.

(b) Candidates were required to prepare an income statement to calculate the profit on refreshments. Common errors included not adjusting the purchases for the opening accrual and the inclusion of items such as purchase of equipment and wages.

(c) An income and expenditure account was required. Common errors included omitting the subscriptions calculated in (a) and the profit on refreshments calculated in (b), omitting subscriptions written off and depreciation of equipment, and including assets such as bank balance and equipment. The difference on an income and expenditure account represents the surplus or deficit for the year: it is not the profit or loss for the year.

(d) Candidates were required to prepare a balance sheet of the sports club. Many candidates classified the assets and liabilities correctly, but subscriptions prepaid and accrued were often treated incorrectly. Some candidates incorrectly described the accumulated fund as capital and sometimes inserted a balancing figure rather than the figure in the question.

(e) The majority of candidates misunderstood this question and answers were related to differences between a cash book and a bank statement balance. The question wanted candidates to explain two reasons why the surplus or deficit was not equal to the bank balance of the club. Acceptable answers included –

- income and expenditure account items are adjusted for accruals and prepayments, but no such adjustments are made in the cash book.
- income and expenditure account includes only revenue receipts and payments, but the cash book includes all amounts received and paid.
- income and expenditure account includes non-monetary items, but the cash book includes only monetary items.

Question 6

(a) Using the information provided, candidates were required to prepare a revised income statement. The adjustment to the cost of production for repairs caused some problems. Some candidates omitted the costs of $25 000 and omitted the loan interest. Most candidates managed to earn some of the available marks.

(b) Using the profit calculated in (a) candidates had to advise the business proprietor whether the equipment should be purchased. Most candidates offered appropriate advice based on the profit or loss calculated in (a).

(c) One reason why the proprietor may decide not to purchase the machine was required. Many candidates repeated their answer from (b). Others made an attempt to explain the disadvantages of obtaining a loan, having to meet the interest each year and having to repay the loan at the appropriate time.

(d) Candidates were told that the proprietor’s capital was $64 000 and were asked to calculate the return on capital employed (ROCE) before and after the purchase of the equipment. The original return should have been 15.62% (the profit of $10 000 as a percentage of $64 000). The return after purchase of the equipment should have been 10.76% (or the equivalent figure based on the profit calculated in (a)). This should be calculated as the profit for the year plus loan interest as a percentage of the capital employed (the owner’s capital + the loan). A large number of candidates did not include the loan interest or the loan. Candidates are reminded that if a question asks for an answer to two decimal places, marks will be lost if this requirement is not fulfilled.
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ACCOUNTING

Key messages

This question paper contained a mixture of multiple-choice, short form and structured questions. There were marks available for candidates with knowledge and application skills and additional marks for well-prepared candidates.

Accounting is a subject that requires accuracy and precision. Marks were available for giving correct numerical answers but where questions required analysis or decision making, it was important for candidates to be able to give written descriptions or advice. It was also important to answer the question and not to give additional answers which were not required.

A sound knowledge of definitions and explanations of accounting theory would enable candidates to express this knowledge and to apply it in the structured questions.

General comments

The paper covered a diverse range of questions requiring both computational and analytical abilities. Features of these questions were that they covered a lot of basic accounting and provided opportunities for candidates to demonstrate their knowledge and understanding from all parts of the syllabus.

Overall, there was a range of responses, with more able candidates giving good answers, whilst less well-prepared candidates, though still able to find some accessible marks from the question paper, found the paper more demanding as it progressed.

The responses to the questions on the paper indicated that the standard of the examination was appropriate to the level of the candidates. Whilst there were candidates who were clearly not familiar with topics, most attempted all the questions. Answers were generally clearly written with correct descriptions or accounting terms used. There was space on the question paper allocated for candidates to show their workings, where these were required, and it was not possible to give credit to candidates who did not show workings.

Comments on specific questions

Question 1

Candidates’ performance in completing the ten multiple choice questions was varied. Many candidates answered the multiple choice questions accurately, though some candidates found some of the items demanding. Responses to items (h), (i) and (j) were good and items (c) and (f) appeared the most challenging.

Question 2

This question consisted of a number of short answer questions from across the syllabus.

Candidates performed well on this question and in particular gave correct answers to parts (a) and (d). However, many candidates had difficulty with part (c), the explanation of the balance on the insurance account and part (f)(ii), explaining the effect of an error of principal on the trial balance.
Part (a) required candidates to complete six sentences, using given accounting terms. Candidates responded excellently to this question, though there was some confusion regarding the definition of ‘book-keeping’ and ‘accounting’ with candidates reversing these items.

In part (b) candidates were asked to prepare an insurance account. Though answers were generally good, some candidates showed the bank entry as a credit and the income statement entry as a debit.

Candidates found part (c) difficult, often referring to the closing balance on the insurance account as an accrual rather than a prepayment.

Part (d) required candidates to complete a table to show on which side of a trial balance a list of items would appear and many candidates achieved full marks in this part.

In part (e) candidates found no difficulty in stating one purpose of preparing a trial balance, though responses referring to ‘finding mistakes’ were not accepted.

Many candidates correctly identified an error of principle for part (f)(i). However, explaining the effects of this error in part (f)(ii) was not so well done. A common response was that there would be no effect on the trial balance, which was not accepted without further explanation.

Responses to part (g) were excellent, the main error being a document sent by a customer detailing the allowance due on returned goods being stated as a credit note rather than a debit note.

Question 3

This question required depreciation calculations, the completion of ledger accounts and a balance sheet (statement of financial position) extract.

Many candidates recognised that two years’ depreciation was the correct response for part (a).

Part (b) required the completion of the delivery vans account and candidates responded correctly.

Many candidates correctly calculated the depreciation for the year in part (c), though some candidates failed to appreciate that van B had been sold and incorrectly included depreciation for van B in the calculation.

Responses to preparing the provision for depreciation account in part (d) were poorly attempted. Marks were lost through omission of the opening balance and omission of the disposal entry. Some candidates did not recognise that the total of depreciation for the year in part (c) should be included in the account.

Part (e), the preparation of a balance sheet (statement of financial position) extract, was also poorly attempted with some candidates showing the total of depreciation for the year from part (c), rather than the balance on the account prepared in part (d) as the depreciation to date.

Candidates responded well to part (f), correctly identifying consistency as the correct accounting principle.

Excellent responses were given to part (g) requiring candidates to state three causes of depreciation.

Question 4

For this question, from given information, candidates were required to prepare a statement of affairs, calculate profit, prepare an income statement and state the advantages and disadvantages of forming a partnership.

The statement of affairs in part (a) was very competently prepared, the main mistake being the omission of the ‘Financed by’ section showing the capital balance by candidates using vertical presentation.

Part (b), the calculation of the profit for the year, was disappointingly poorly attempted. Many candidates starting their calculation with $16050 from part (a), deducted opening capital of $15500 correctly, but added capital introduced and deducted drawings, resulting in an incorrect profit figure. Some candidates used an opening capital figure of $10000 and a capital introduced figure of $1000 incorrectly in their calculation.

Part (c) required the preparation of an income statement and there were some good responses to this question, but marks were mainly lost where candidates failed to take into account the trade receivables and...
trade payables when calculating the sales and purchases figures. Other errors were the omission of the $450 goods for own use. Marks were also lost by the incorrect description of sales as ‘receipts from customers’ and purchases as ‘payments to suppliers’.

Most candidates gave excellent responses to part (d), correctly stating two advantages and two disadvantages of forming a partnership. Weaker candidates seemed to confuse advantages with disadvantages or gave vague descriptions.

Question 5

This question was found to be the most challenging question.

This question required the explanation of accounting terms, the preparation of a provision for doubtful debts account and balance sheet (statement of financial position) extract for trade receivables, plus completing a table concerning a manufacturing business.

In part (a) most candidates were correctly able to explain what is meant by ‘bad debts and ‘provision for doubtful debts’.

Part (b) required the preparation of a ledger account for the provision of doubtful debts. Although many candidates gave correct entries, some reversed the debits and credits thereby losing marks. The main error was that candidates failed to deduct the $1400 bad debt from the trade receivables prior to calculating the 3% provision for 31 August 2013.

Although some acceptable answers to part (c) were given, many candidates stated the trade receivables figure as $21200 instead of $19800 and either omitted the provision for doubtful debts or used the incorrect income statement figure from part (b) rather than the final balance on the account.

Answers varied in Part (d), where candidates were asked to indicate how items would appear in the financial statements of a manufacturing business. The main error was showing carriage inwards as ‘income statement’.

Question 6

In this question candidates were required to complete tables recording double entry transactions, calculating the value of working capital, indicating the effect of transactions, classifying items and naming financial statements.

On the whole, candidates scored adequately in part (a), recording the double entry for given transactions. The main errors were in transaction 1, where ‘stock’ was used as the description instead of ‘purchases’ for the credit entry and transaction 3, where the discount allowed was frequently omitted.

Parts (b) asked for the value of working capital after the given transactions had taken place. Candidates had problems with transactions 3 and 4, an increase of $600 frequently shown for transaction 3 and a decrease of $1000 for transaction 4. Marks were also lost due to candidates not showing the movement in the transactions, i.e. transaction 1, +$800; transaction 2, -$200.

Answers were varied for part (c), candidates mainly recording transaction 3 incorrectly. As anticipated, candidates scored well in parts (d) and (e).
ACCOUNTING

Key Messages

Question 1 required candidates to write up a petty cash book and to answer related theory questions. Candidates were then required to explain the meaning of working capital and to explain the effect of three transactions on the working capital of a business.

In Question 2 candidates were required to write up ledger accounts involving bad debts, bad debts recovered and provision for doubtful debts. The effect on profit and current assets of not adjusting a provision for doubtful debts had to be stated. Candidates then had to calculate the collection period for trade receivables and answer a related theory question.

An income statement of a sole trader had to be prepared in Question 3. Short theory questions on accounting principles were also included.

The first sections of Question 4 were on correction of errors and the use of a suspense account. The last sections of the question involved interpretation of entries in a ledger account.

Question 5 required candidates to answer theory questions relating to a partnership and to prepare the current account of a partner. An explanation of the term “relevance” was also required.

In Question 6 candidates were required to provide formulas and calculations for three ratios. Related theory questions were also included. Candidates were then asked to explain two factors which a trader should consider when comparing his results with those of a similar business.

It is important for teachers and candidates to be aware that candidates are expected to use “new” terminology in future examinations.

General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to do well.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Candidates should note that if they provide calculations, some of the available marks may be awarded even if the final figure is incorrect.

Candidates should read through each question very carefully before attempting an answer. For example, some candidates failed to follow an instruction to round up the collection period for trade receivables to the next whole day and to calculate ratios correct to one decimal place.

Candidates are advised to think carefully about the answers they provide: this would often result in more marks being earned. Where a column is headed with a dollar sign, candidates should realise that an amount of money is required rather than just a tick. It should be obvious that the closing inventory would not exceed the total of the opening inventory and the purchases. Similarly, candidates should appreciate that it is not possible to pay out more from petty cash than is actually available.
Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “P” for “profit for the year” and “I C” for “interest on capital” are not acceptable.

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

Comments on Specific Questions

Question 1

(a) A petty cash book had to be written up for the month of October. This should have been a straightforward question. There were some excellent answers with many candidates gaining good marks. Some candidates made basic errors resulting in the loss of marks. Common errors included –

Using incorrect descriptions such as “employee”, “creditor” and “restore”
Regarding the cash received as a payment
Not totalling the total columns and the analysis columns
Not balancing the book at the end of the month
Showing a credit balance brought down at the start of the next month

(b) Candidates were required to state where the double entry would be made for items recorded in the ledger account column of the petty cash book. $34 would have been debited to A Shakeel’s account and $16 would have been debited to S Arshad’s account.

(c) Candidates had to state where the double entry for the receipt of cash from employee for postage costs would be made. This would have been credited to the postage and stationery account. Many candidates incorrectly suggested drawings or the personal account of the employee.

(d) An explanation of working capital was required. The vast majority of candidates correctly stated that working capital is the difference between the current assets and the current liabilities. Some candidates then correctly explained how this is the amount available for the day-to-day running of the business.

(e) Four transactions were listed and candidates were required to state and explain the effect of each of these on the working capital of a business. The effect of transactions on the working capital is an area where many candidates would benefit from further study.

Return of goods to a credit supplier would not affect the working capital as the current assets (inventory) would decrease and the current liabilities (trade payables) would decrease by the same amount. Repayment of a short-term loan of $2000, plus interest $15, would reduce the working capital by $15 as the current assets would decrease by $2015 and the current liabilities would decrease by $2000. Receipt of a cheque from a credit customer, $190 to settle $200 owing would reduce the working capital by $10 (the trade receivables would decrease by $200 and the bank would increase by $190).

Question 2

(a) Using information provided, candidates were asked to write up ledger accounts. Most candidates prepared “T” accounts, but three column running balance accounts were also acceptable. Candidates are reminded of the importance of correct details and dates.

The first account was that of a credit customer. Many candidates incorrectly used the list price of the goods sold rather than the price after trade discount. A few omitted the opening balance of $20. In the bad debts account, some candidates again omitted the opening balance. Some candidates did not appear to be familiar with bad debts recovered account. The provision for doubtful debts account caused problems for some candidates.

(b) Candidates were asked to state how omitting the adjustment to the provision for doubtful debts would effect the profit for the year and the current assets at the year-end. The provision for
doubtful debts decreased by $360, so omitting this adjustment meant that both the profit and the current assets were understated by that amount (or the candidate’s own figure from (a)(iv)). Despite the fact that the columns were headed with a dollar sign, a significant number of candidates simply inserted a tick rather than an amount of money.

(c) Candidates were required to state the formula for the collection period for trade receivables. Many candidates provided a wholly correct answer. The majority of candidates were also able to correctly calculate the collection period. A few candidates did not follow the instruction to round up the answer to the next whole day.

Many candidates provided acceptable explanations of the effect of the collection period for trade receivables on the liquidity of the trader.

Question 3

(a) An income statement using either vertical or horizontal presentation was equally acceptable. There were many very good answers. In the trading account section, a common error was to omit the goods taken for personal use. The gross profit should have been $41,000 (25% of the net revenue). The cost of sales could then be calculated ($123,000) and the “missing figure” of closing inventory inserted ($17,000).

In the profit and loss account section, most candidates correctly adjusted the wages and the general expenses. Common errors included calculating interest on loan for a whole year rather than for six months, listing the whole of the new provision for doubtful debts rather than the increase, and depreciating the motor vehicle by the straight line method rather than reducing balance method. Some candidates incorrectly included unrelated items such as petty cash and drawings.

(b) Candidates were asked to name the accounting principles which had been applied by maintaining the same percentage of depreciation, recording the accrual and prepayment, and recording goods for own use. There were many wholly correct responses. The principle of prudence was a common incorrect response.

Question 4

(a) A list of errors, discovered after a suspense account was opened, was provided. Candidates were required to make the appropriate entries in the suspense account. A thorough knowledge of double entry was required to answer this question. Once again the importance of correct details must be emphasised.

(b) Using their answer to (a), candidates were required to state whether all the errors had been discovered. The majority of candidates gave a suitable answer based on whether the suspense account in (a) had a closing balance.

(c) Candidates were asked to explain why not all the corrections required an entry in the suspense account. Many candidates were aware that errors not affecting the balancing of the trial balance do not require an entry in the suspense account. The error of complete omission (error 3) was an example of this type of error.

(d) A purchases ledger account was provided and candidates were required to explain various entries in that account. Some answers were far too vague to earn the available marks. Although an account where the double entry would appear was stated, the nature of the entry was often omitted.

(e) Most candidates correctly stated that the balance at the end of the ledger account represented a liability to Samira.
Question 5

(a) The vast majority of candidates were able to state one advantage and one disadvantage of being a partner rather than a sole trader.

(b) This was also well answered. However, a common error was to state the contents of a partnership agreement rather than why it is drawn up.

(c) A partially completed appropriation account together with other relevant information was provided and the current account of one of the partners had to be prepared. There were many wholly correct responses. A few candidates also prepared the current account of the other partner, which was not required.

(d) Using their answer to (c), candidates had to explain the significance of the closing balance on the current account. Some candidates correctly explained that a debit balance represented the amount owed by the partner to the business. Common incorrect responses included a statement that the partner was overdrawn, that it was a liability, that it was the balance carried to next year.

(e) Candidates were asked to name the account to be debited and the account to be credited when a partner transferred funds from his current account to his capital account. There was a variety of answers, with some candidates earning full marks.

(f) Accounting policies is a section of the syllabus on which candidates would benefit from further study. Many candidates discussed relevance in very general terms unrelated to accounting.

Question 6

This question required candidates to calculate three ratios and to answer related theory questions on their calculations. The final part of the question required candidates to state two factors which a trader should consider when comparing his results with those of a similar business.

(a) Candidates were required to state the formula and then to calculate the percentage of gross profit to revenue, the percentage of profit for the year to revenue, and the return on capital employed (ROCE). Many candidates earned high marks on this section of the question. A few candidates did not show the full formula, often omitting “x 100” and a few did not show the answers to one decimal place as instructed.

(b) Information was provided about another business dealing in the same type of goods. Candidates were asked to state one possible reason for the difference in the gross profit percentage between the two businesses. Kelly Limited may have been selling goods at a higher price, or may have been purchasing goods cheaper than Patrick. Some answers were incorrectly based on quantities rather than prices or simply stated that there was a difference in the sales and/or purchases without further explanation.

Candidates were asked to state one possible reason for the difference in the profit for the year as a percentage of revenue between the two businesses. Most candidates correctly suggested that Patrick may have lower expenses. Again some candidates failed to identify the business to which their comment related.

(c) Some candidates recognised that the return on capital employed (ROCE) is a measure of how efficiently capital is being employed but responses often incorrectly referred to capital invested by the proprietor(s) rather than the total capital being used in the business.

Based on the ratio calculated in (a), most candidates correctly named the business which was making the best use of the capital employed.

(d) Candidates were asked to suggest two factors (apart from dealing in the same type of goods) that a trader should consider when comparing his results with those of a similar business. Many candidates provided acceptable responses and earned full marks. The size of the business and the choice of accounting policies were popular correct responses.
Key Messages

Question 1 required candidates to write up a petty cash book and to answer related theory questions. Candidates were then required to explain the meaning of working capital and to explain the effect of three transactions on the working capital of a business.

In Question 2 candidates were required to write up ledger accounts involving bad debts, bad debts recovered and provision for doubtful debts. The effect on profit and current assets of not adjusting a provision for doubtful debts had to be stated. Candidates then had to calculate the collection period for trade receivables and answer a related theory question.

An income statement of a sole trader had to be prepared in Question 3. Short theory questions on accounting principles were also included.

The first sections of Question 4 were on correction of errors and the use of a suspense account. The last sections of the question involved interpretation of entries in a ledger account.

Question 5 required candidates to answer theory questions relating to a partnership and to prepare the current account of a partner. An explanation of the term “relevance” was also required.

In Question 6 candidates were required to provide formulas and calculations for three ratios. Related theory questions were also included. Candidates were then asked to explain two factors which a trader should consider when comparing his results with those of a similar business.

It is important for teachers and candidates to be aware that candidates are expected to use “new” terminology in future examinations.

General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to do well.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Candidates should note that if they provide calculations, some of the available marks may be awarded even if the final figure is incorrect.

Candidates should read through each question very carefully before attempting an answer. For example, some candidates failed to follow an instruction to round up the collection period for trade receivables to the next whole day and to calculate ratios correct to one decimal place.

Candidates are advised to think carefully about the answers they provide: this would often result in more marks being earned. Where a column is headed with a dollar sign, candidates should realise that an amount of money is required rather than just a tick. It should be obvious that the closing inventory would not exceed the total of the opening inventory and the purchases. Similarly, candidates should appreciate that it is not possible to pay out more from petty cash then is actually available.
Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “P” for “profit for the year” and “I C” for “interest on capital” are not acceptable.

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

Comments on Specific Questions

Question 1

(a) A petty cash book had to be written up for the month of October. This should have been a straightforward question. There were some excellent answers with many candidates gaining good marks. Some candidates made basic errors resulting in the loss of marks. Common errors included –

Using incorrect descriptions such as “employee”, “creditor” and “restore”
Regarding the cash received as a payment
Not totalling the total columns and the analysis columns
Not balancing the book at the end of the month
Showing a credit balance brought down at the start of the next month

(b) Candidates were required to state where the double entry would be made for items recorded in the ledger account column of the petty cash book. $34 would have been debited to A Shakeel’s account and $16 would have been debited to S Arshad’s account.

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(a) Candidates were required to state the formula and then to calculate the percentage of gross profit to revenue, the percentage of profit for the year to revenue, and the return on capital employed (ROCE). Many candidates earned high marks on this section of the question. A few candidates did not show the full formula, often omitting “x 100” and a few did not show the answers to one decimal place as instructed.

(b) Information was provided about another business dealing in the same type of goods. Candidates were asked to state one possible reason for the difference in the gross profit percentage between the two businesses. Kelly Limited may have been selling goods at a higher price, or may have been purchasing goods cheaper than Patrick. Some answers were incorrectly based on quantities rather than prices or simply stated that there was a difference in the sales and/or purchases without further explanation.

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ACCOUNTING

Key Messages

**Question 1** concentrated on understanding the use of various business documents and books of prime (original) entry and the preparation of purchase ledger accounts.

In **Question 2** candidates were required update a cash book and to reconcile the balance shown in the cash book with the overdraft shown on the bank statement.

Candidates were required to prepare the balance sheet of a limited company in **Question 3**. Candidates were also required to state the differences between preference shares and debentures. The accounting policy of reliability had to be explained, and the three other accounting policies had to be named.

The first section of **Question 4** required candidates to answer theory question on a sales ledger control account. Candidates were then required to calculate the value of a trader’s inventory and to explain the accounting principle applied. The last sections of the question were on the topic of rate of inventory turnover.

In **Question 5** candidates were given four ratios for two consecutive years and were required to answer questions on the change in these ratios. Candidates were then asked to state the effect on the gross profit of proposals to reduce both the trade discount and cash discount allowed to customers. Finally the question required explanations of two limitations of financial statements.

**Question 6** was on the topic of errors. Candidates were required to state the effect on the profit for the year of four errors and to prepare journal entries to correct those four errors.

General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Candidates should read through each question very carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which does not answer the question asked. For example, where candidates are asked to state differences between two items (e.g. preference shares and debentures), answers should relate to these items only and should specifically state the differences.

Candidates are advised to think carefully about the answers they provide. Where a column is headed with a dollar sign, candidates should realise that an amount of money is required rather than a tick. It should be obvious that if a business has inventory it cannot be a minus figure.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as ‘bbd’ for ‘balance brought down’ and ‘PDD’ for ‘provision for doubtful debts’ are not acceptable.
The following comments should be read in conjunction with the question paper and the published mark scheme.

**Comments on Specific Questions**

**Question 1**

(a) Many candidates ignored the instruction that a document was to be named, and instead, gave the name of a book of prime entry or a ledger account. Other candidates lost marks for only writing ‘cheque’ instead of ‘cheque counterfoil’ or ‘cheque butt’.

(b) Again some candidates ignored the instruction that a book of prime entry was to be named, and instead stated the name of a ledger account.

(c) Candidates were required to write up two purchase ledger accounts. The better candidates wrote up these accounts accurately and labelled them properly. Weaker candidates lost marks for inaccurate labelling and incorrect dates. Candidates should remember to label their entries with the name of the ledger account to which the opposite entry would be posted. Some candidates reversed the entire ledger accounts.

(d) Many candidates correctly stated that a statement of account is issued to inform the customer of the amount owed. However, other comments were often insufficient to gain a mark (e.g. they did not state whether the supplier or customer was being referred to).

(e) The obvious answer here is that the supplier issues a credit note whereas the customer issues the debit note. Some candidates stated this the wrong way round and others incorrectly answered that the supplier issues both of these documents but for different purposes.

**Question two**

(a) Candidates were required to update the cash book. Some candidates did not manage to differentiate between items which required an adjustment in the cash book and those which required to be included in the bank reconciliation statement. A number of candidates lost marks for incorrectly labelling their cash book entries.

(b) Candidates were required to prepare the bank reconciliation statement. There were a number of excellent answers. However, again some candidates lost marks by incorrect labelling the reconciliation items. Some candidates struggled with preparing a bank reconciliation statement where the balance, as per the bank statement, was overdrawn.

(c) Candidates were required to state why the updated cash book balance, rather than the balance on the bank statement, would appear on the balance sheet. A number of candidates correctly pointed out that the cash book is written up from the point of view of the business rather than of the bank, but could also have pointed out that using the bank statement balance would cause the balance sheet not to balance. Some candidates made irrelevant points, such as that the cash book has been corrected of any errors.

**Question three**

(a) Candidates were required to prepare a balance sheet, from financial information provided in the question. Many candidates scored a high mark here. Candidates commonly lost marks for incorrect presentation of the provision for doubtful debts and of the retained profits, and for incorrectly calculating the depreciation to date.

(b) Candidates were required to state two differences between preference shares and debentures. Typically candidates gained marks for stating that debenture holders receive interest whereas preference shareholders received dividends. Many candidates lost marks by not dealing with both preference shares and debentures in their answer. (For example, it is not enough to say ‘preference shareholders are owners of the company but debenture holders are not.’ Candidates should say ‘preference shareholders are members of the company but debenture holders are creditors/lenders.’) Some candidates lost marks by comparing preference shares to ordinary shares.
Candidates were required to explain the objective of reliability. Many candidates lost marks by stating that the accounting policies, rather than the information in the financial statements, must be reliable.

Candidates were asked to list three other objectives. Many candidates scored full marks here.

**Question four**

(a) Candidates were required to state why the sales ledger control account should be prepared by a more senior member of staff than the person who maintains the sales ledger. Many candidates correctly stated that this is to reduce the possibility of fraud.

(b) Candidates were required to explain the significance of the credit balance on the sales ledger control account at the start of the month. Not all candidates spotted that the customer was owed money. Some candidates mentioned that the customer may have returned goods, but omitted to add that these goods must have been already been paid for.

(c) This question required candidates to explain certain entries in the control account. Some candidates ignored the fact that the account was a control account and that therefore their comments should relate to totals for the month. The section which required candidates to state the source of information was poorly attempted.

(d) Here candidates were required to calculate the total value of the inventory. Typically candidates calculated the inventory value correctly for either A or B and calculated the other one incorrectly. Common mistakes included omitting the carriage inwards when calculating the valuation for Type A.

(e) Candidates were required to explain their calculations in part (d) and to state the accounting principle applied. Candidates typically stated that inventory is valued at the lower of cost and net realisable value and that prudence is applied, but failed to relate this to how they calculated their answer to part (d).

(f) Candidates were required to calculate cost of sales. This question was poorly attempted. The calculation required was straightforward, i.e. sales revenue multiplied by 100/125.

(g) Candidates were required to calculate the rate of inventory turnover. Most candidates used the correct formula. However, a significant number of candidates calculated average inventory incorrectly. Some candidates failed to label their answer as a number of times.

(h) Candidates were required to suggest one reason why the rate of inventory turnover had improved. This question was generally well attempted.

**Question five**

(a) Candidates were required to comment on the change in the expenses percentage. Many candidates commented accurately, but others lost marks by relating their comments to a supposed change in expenses rather than to the change in the expenses percentage.

(b) Candidates were required to suggest one way in which the profit for the year, as a percentage of revenue, may be increased. Many candidates earned these marks by correctly suggesting that expenses should be reduced. (Other relevant answers were acceptable.)

(c) Candidates were required to state the meaning of capital employed and to state what return on capital employed measures. Many candidates provided answers which were not specific enough to gain the marks. Many candidates stated incorrectly that capital employed is the capital invested by the owner of the business. Some candidates confused capital employed with working capital. The question then required candidates to suggest one reason why the return on capital employed had increased. This part of the question was better attempted.

(d) Candidates were required to state the effect of each of two proposals. Candidates scored well on this question.
(e) This question required candidates to explain two limitations of financial statements. Many candidates answered accurately but did not provide enough detail for four marks. Others explained the term 'historical cost' but did not relate their answer to financial statements.

Question six

(a) Candidates were required to show the effect on profit of various bookkeeping errors. A common mistake candidates made here was stating that the effect of error 4 was to overstate profit by $350, rather than $700.

(b) This question required candidates to name the types of bookkeeping errors made. This question was well attempted and candidates typically scored full marks here.

(c) Candidates were required to prepare journal entries to correct the errors. Candidates often tackled the first two errors well, but struggled with the last two errors. Common mistakes on error number 4, were to correctly debit rent received with $350 but to credit this amount to either bank, suspense or rent paid. Mistakes on error number 5 included using $45 instead of $90. A number of candidates lost marks by not explaining, in their narrative, the purpose of the journal entry, i.e. to correct the error.