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ACCOUNTING

Paper 0452/11

Paper 11

Key messages

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

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

The application of accounting principles to the keeping of books of account (such as the cash book or ledger accounts) is an important part of the subject at this level and marks were available for accurate and careful answers to the question on this topic.

A sound knowledge of definitions or explanations of accounting theory will enable candidates to express this knowledge and to apply it in the structured questions. For example, marks were available to those who were aware that the return on capital employed should be expressed as a percentage.

General comments

Many well prepared candidates scored high marks in this paper, although a significant number of candidates found the topics examined challenging. The majority of the multiple choice questions in **Question 1** were well answered but answers to **parts (d)** and **(e)** in **Question 2** would suggest that some candidates are unfamiliar with accounting terminology and have difficulty in expressing their answers.

There was evidence that candidates found the accuracy required in **Question 3** on accounting records difficult but good answers were given to preparing the income statement in **Question 5.** The answers to the advice required in the final part of **Question 6** were generally incomplete.

Answers were generally clearly written with appropriate wording or accounting terms used but candidates for whom English is a second language found the written answers challenging.

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

Comments on specific questions

Question 1

This section of the paper consisted of 10 multiple choice questions from across the syllabus and also tested the skill levels required for this level. Marks awarded varied considerably and there seemed to be a good correlation between the marks gained on this section and overall marks for the whole paper. Three of the items, **(b), (d)** and **(f)** were found to be the most challenging.

Question 2

This question tested candidates' understanding of accounting theory and required definitions of current assets, the accounting equation, the difference between capital and revenue expenditure, sections of the

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ledger, errors, the calculation of the percentage of net profit to revenue, the result of a bank reconciliation and how to calculate share capital.

Part (a) required candidates to identify two current assets. This was very well answered and very many candidates gained full marks. In **Part (b)**, most candidates were able to state a version of the accounting equation although some used other incorrect definitions such as the formula for working capital.

In **Part (c)**, many candidates gained marks for correctly indentifying some of the income and expenditure items and the most able candidates achieved all 3 marks. In **Part (d),** candidates generally knew that a customer's account would be found in the sales or debtors ledger and the provision for bad debts account in the nominal or general ledger.

Candidates did not find it easy to give an example in **Part (e)(i)** of an error which would cause the trial balance not to balance although many did correctly give arithmetical errors or one sided entries. Most identified the error in **(ii)** correctly as an error of original entry.

Answers for the calculation of the percentage of net profit to revenue in **Part (f)** were generally good although some candidates lost marks by using the wrong figures from the question. Many candidates deducted the un-presented cheques from the cash book balance in **Part (g)** instead of correctly adding them.

The calculations for both the ordinary and the preference shares were generally correct so candidates usually gained all the available marks in this last section.

Question 3

This question required candidates to make entries in a pro-forma three column cash book from information in the question, write up a number of ledger accounts, and then define, calculate and explain the use of the provision for doubtful debts. Many candidates found the necessary accuracy and precision difficult.

In **Part (a)**, many candidates correctly included some receipts in the bank column of the cash book, but others also included the credit sale. Some calculated the cash discount allowed on the net amount received. Many showed an incorrect narrative for purchases: as this was a cash item the correct answer was 'purchases'.

In **Part (b)**, most candidates made correct entries in some of the accounts, but did not realise there was no entry to be made in the 'discount received account'. Some candidates reversed the entries made, and many omitted dates and correct narratives.

Parts (d), (e) and (f) required the definition of, the calculation of, and analysis of the adequacy of a provision for doubtful debts. Most were able to answer the first two but found the final part difficult.

Question 4

Answers to the trial balance part of this question were good, although a number of answers showed one or more items on the wrong side, such as 'drawings' as a credit item. Some answers also showed a trial balance which did not balance, but without a suspense account.

Answers to the journal entries were good, but some reversed the entries and presentation was inconsistent. Good candidates would also have realised that the entries from the journal in the suspense account would have cleared the balance on that account.

Question 5

This question included calculations of depreciation and the preparation of an income statement.

In **part (a),** candidates were asked to explain what is meant by a non-current asset. Most answers stated that it was an asset held for long term use, and some that it was not held for resale, but not many made both points. Some answers gave helpful examples.

Part (b) required the candidate to calculate depreciation over a three year period using the straight line method. A very well answered question with many correct answers; good candidates who did not earn full marks had generally made arithmetical errors in their calculations, or had not deducted the scrap value figure

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from the cost. Few marks were given to candidates who did not read the question and gave the net book values of the asset as their answers.

Part (c) requested candidates to prepare an income statement from information given and was well answered. Common mistakes were to omit the depreciation charge, to omit the finance charges, and to include drawings.

Most candidates were able to give acceptable answers to **parts (d) and (e).**

Question 6

This question required knowledge of the formulae for calculating the percentage of gross profit to sales and the return on capital employed. It was apparent that the first formula was better known and understood than the second.

A very high proportion of candidates were able correctly to calculate the percentage of gross profit to sales but fewer correctly calculated the return on capital employed. It did not appear to be well understood that the return on capital employed is also expressed as a percentage, and some answers showed that the candidate was unable to use or apply the correct formula at all.

Parts (c) and (d) tested whether candidates understood the effects of selling a mix of products with different percentages of gross profit and returns on capital employed. Many gave some correct answers to **part (c)** but few were able to give acceptable reasons in **part (d)** why selling parts and opening a workshop would be advisable.

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ACCOUNTING

Paper 0452/12

Paper 12

Key messages

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

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

The application of accounting principles to the keeping of books of account (such as the cash book or ledger accounts) is an important part of the subject at this level and marks were available for accurate and careful answers to the question on this topic.

A sound knowledge of definitions or explanations of accounting theory will enable candidates to express this knowledge and to apply it in the structured questions. For example, marks were available to those who were aware that the return on capital employed should be expressed as a percentage.

General comments

Many well prepared candidates scored high marks in this paper, although a significant number of candidates found the topics examined challenging. The majority of the multiple choice questions in **Question 1** were well answered but answers to **parts (d)** and **(e)** in **Question 2** would suggest that some candidates are unfamiliar with accounting terminology and have difficulty in expressing their answers.

There was evidence that candidates found the accuracy required in **Question 3** on accounting records difficult but good answers were given to preparing the income statement in **Question 5.** The answers to the advice required in the final part of **Question 6** were generally incomplete.

Answers were generally clearly written with appropriate wording or accounting terms used but candidates for whom English is a second language found the written answers challenging.

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

Comments on specific questions

Question 1

This section of the paper consisted of 10 multiple choice questions from across the syllabus and also tested the skill levels required for this level. Marks awarded varied considerably and there seemed to be a good correlation between the marks gained on this section and overall marks for the whole paper. Three of the items, **(b), (d)** and **(f)** were found to be the most challenging.

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Question 2

This question tested candidates' understanding of accounting theory and required definitions of current assets, the accounting equation, the difference between capital and revenue expenditure, sections of the ledger, errors, the calculation of the percentage of net profit to revenue, the result of a bank reconciliation and how to calculate share capital.

Part (a) required candidates to identify two current assets. This was very well answered and very many candidates gained full marks. In **Part (b)**, most candidates were able to state a version of the accounting equation although some used other incorrect definitions such as the formula for working capital.

In **Part (c)**, many candidates gained marks for correctly indentifying some of the income and expenditure items and the most able candidates achieved all 3 marks. In **Part (d),** candidates generally knew that a customer's account would be found in the sales or debtors ledger and the provision for bad debts account in the nominal or general ledger.

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Question 4

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Parts (c) and (d) tested whether candidates understood the effects of selling a mix of products with different percentages of gross profit and returns on capital employed. Many gave some correct answers to **part (c)** but few were able to give acceptable reasons in **part (d)** why selling parts and opening a workshop would be advisable.

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ACCOUNTING

Paper 0452/13

Paper 13

Key messages

- The question paper contained a mixture of theory, practical application and some higher skills and in order to score well it is necessary to prepare topics across the syllabus.
- Knowledge of international accounting terminology is now required, and there was evidence of some confusion, e.g. between an income statement and a statement of account and accounts payable and receivable.
- When preparing accounting records such as ledger accounts or journal entries the proper account names should be used and not descriptions of the transaction.
- Where questions require a written answer, the sense of the answer should be clearly stated and will earn marks even if the grammar or spelling is incorrect.

General comments

Overall a very good set of candidates with very few low scoring papers. 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.

A significant number of very well prepared candidates who gained most of the available marks and many other candidates who had problems on certain topics were still able to gain marks on other areas of the syllabus. **Question 3** on purchase invoices and **Question 6** on statements of financial position (balance sheets) were both well answered. **Questions 5(eii)** and **6(c)** were intended to test higher level skills and many candidates were able to demonstrate these skills.

Most of the multiple choice questions in **Question 1** were well answered and generally had a good correlation with candidates overall marks. In the majority of cases, answers were generally clearly written and appropriate language/terms used where necessary. Good candidates included proper account names in those answers requiring ledger accounts or journals to be drawn up rather than using descriptions of the transactions. Candidates tended to read the questions carefully and instances of marks being lost for failing to give answers to two decimal places where specified or use of incorrect identifiers (e.g.: xx:1, Times, $, %) were less common than in previous years.

Comments on specific questions

Question 1

This section of the paper consisted of ten multiple choice questions from across the syllabus which tested all of the skill levels. Marks awarded varied considerably and there seemed to be a good correlation between the marks gained on this section and total marks for the paper. The number of occasions when candidates had crossed out and amended answers was fairly high which suggests that candidates found this type of question quite challenging but may also indicate that candidates are checking their answers more carefully.

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Question 2

This question tested candidates understanding of types of financial statements, types of business, assets/liabilities, reasons for depreciation, users of accounting information, journal entries, accounting principles and policies and accounting ratios.

Part (a) required candidates to give examples of financial statements. This was very well answered and the majority of candidates gained full marks. Most common answers included: income statement, trading account, profit and loss account, balance sheet (income and expenditure account, manufacturing account, appropriation account), statement of affairs. Errors tended to be where candidates suggested trial balance or cash book.

In **Part (b)** almost all candidates recognised that a service business provides services, not goods; and also provided suitable examples, including travel agent, accountants, insurance, hairdressers and banks. Restaurants and cafes were not accepted as although there is a service element these businesses are also providing a product. In **Part (c)**, many candidates gained full marks for correctly identifying that trade payables and bank overdraft were liabilities and goodwill was an asset.

The more able candidates made reference to the need for 'matching' and 'prudence' in their answer to **Part (d)** as reasons for depreciating non-current assets. Some candidates gave examples of why assets lose value, such as wear and tear, rather than the need to provide for depreciation in the accounts. Almost all candidates were able to identify one interested party for **Part (e)** and many appreciated that the 'going concern' principle assumed that a business will continue indefinitely (for the foreseeable future). Answers suggesting for the next year only were not considered to be detailed enough so were not accepted.

Candidates generally knew the correct method for valuing inventory in **Part (f)** as the lower of 'cost and net realisable value'. Marks were not awarded for NRV as this is not a commonly used abbreviation. Only the better prepared candidates gained full marks for calculating the cost of sales as $28 800 in **Part (h)**. Many candidates incorrectly attempted to calculate mark-up as 25% of the revenue figure.

Answers for **Part (i)** were surprisingly weak as this should have been a straight forward calculation but some candidates decided to divide the annual interest by 5 rather than 4 quarters:

Question 3

This question required candidates to identify books of prime entry, complete a purchase invoice, and calculate trade payables payment periods and rate of inventory turnover, before then analysing the impact changes would have on these figures.

Part (a) simply required candidates to name the purchase journal (daybook). This was one of the best answered questions although some candidates were confused and suggested the purchase ledger or sales book. **Part (b)** was well answered and many candidates obtained all, or very nearly all, the available marks for their purchase invoice. The most common error was where candidates confused trade discount and cash discount.

The calculations of the trade payables payment period and the rate of inventory turnover in **Parts (c) and (d)** were well answered although a small number of candidates lost marks by not giving their answers to the required number of decimal places or whole day. Many candidates recognised that the credit purchases figure in **(c)** needed to have purchase returns deducted. The best candidates also correctly calculated the cost of sales figure in **(d)** by including opening/closing inventory in their calculations as well as purchase returns. In instances where it was not always clear how candidates had arrived at figures then marks were often able to be awarded if candidates had shown the formula they were using.

Part (e) required candidates to identify the effect of changes on the two ratios. This did require some evaluation from candidates and was generally well answered showing most candidates were aware of the implications of changes in policy by businesses.

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Question 4

Less well prepared candidates found this question difficult, although candidates who were familiar with the topic gained full marks.

The explanation of the purpose of a partnership appropriation account in **Part (a)** was generally correct in showing how the profit for the year is shared between partners. Some candidates did confuse it with a partnership agreement which is for a different purpose.

Part (b) required the candidate to prepare the appropriation account. The well prepared candidates were able to do this by correctly performing all the initial calculations such as interest on drawings and on interest on capitals. Most candidates were able to produce an answer which followed the correct layout and sequencing of items. Common errors were the incorrect calculation of interest on drawings and including alien items such as capital.

Part (c) required candidates to write up each partner's current account. Candidates who did well in **Part (b)** often gained full marks for this section as errors made in the appropriation account were treated under own figure rules in this section to prevent candidates being penalised twice for the same error. The question clearly asked candidates to show the balance brought down and marks were awarded for this figure so candidates who only showed balance carried down lost some marks. Other common errors were to include alien figures such as capital.

Question 5

This question involved calculations of depreciation and the disposal of non-current assets including the effect of depreciation on profit.

In **Part (a),** candidates were asked to identify the account to which sale proceeds of office furniture should have been transferred. The correct answer was 'disposal of non-current assets account'. Old terminology was accepted in this question. **Part (b)** required the candidate to state which type of error had been made in the double-entry of the sale. Error or principle was the correct answer and was selected by most candidates.

Part (c) required candidates to show the journal entry to correct the error. Only the best prepared candidates gained full marks in this section and numerous candidates who had selected the correct account in **Part (a)** were unable to identify the second account or put the entries on the correct side. Some candidates clearly forgot that the entries were to correct a previous error and seemed to be recording what they thought would be the original entry.

In **Part (d),** candidates were asked to make the entries in the three ledger accounts. As these were proper ledger accounts candidates were expected to include correct dates and appropriate narratives such as 'balance b/d' rather than amount owing. The most common errors were assuming the sale to Norse Ltd was for cash not credit and using incorrect dates.

Part (e) required candidates to explain that the transfer to the income statement represented the profit on the sale of office furniture not just income from the sale and that future transfers on the sale of non-current assets could be reduced by using a different method for providing for depreciation or using different rates of depreciation. This question required some analytical skills and many candidates were able to demonstrate these skills.

Question 6

This question required candidates to prepare a statement of financial position (balance sheet). Candidates also had to demonstrate their knowledge of accounting ratios.

In **Part (a)** candidates were asked to prepare a statement of financial position from information provided. Many candidates earned full marks for this question providing clear evidence that this is a well understood topic. Debentures that were shown after or before share capital rather than under a separate long term liabilities heading were not penalised but marks were not awarded if this item was included within the share capital section or under current liabilities.

Part (b) required the candidates to identify what different accounting ratios were measuring. Good candidates gained most if not all of the marks but as this question only required candidates to tick the correct box there may have been a number of candidates who simply guessed correctly.

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Part (c) required candidates to use their answer from **(a)** to calculate the return on opening capital employed. Candidates needed to apply the correct formula as well as calculating the opening capital figure correctly. Whilst most candidates were familiar with the formula for return on capital employed only the best candidates were able to determine the correct opening capital figure. This question was also intended to test higher level skills and succeeded in doing so whilst still offering some marks to the less well prepared candidate. Some candidates also lost marks by not showing answers to two decimal places or as a percentage. As this question involved some calculation, candidates often gained some of the marks where they had shown the formula they had used which then made it easier to determine if the correct figures had been selected.

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ACCOUNTING

Paper 0452/21

Paper 21

Key messages

- The question paper contained a mixture of theory, practical application and some higher skills and in order to score well it is necessary to prepare topics across the syllabus.
- When preparing accounting records such as ledger accounts or journal entries the proper account names should be used and not descriptions of the transaction.
- Where questions require a written answer, the sense of the answer should be clearly stated and will earn marks even if the grammar or spelling is incorrect.
- To gain full marks in **Question 1** the candidates required a thorough knowledge of up-dating a cash book and preparing a bank reconciliation statement when a business had an overdrawn bank balance.
- To gain full marks in **Question 2** the candidates had to be able to prepare a balance sheet of a limited company. An understanding of how a limited company raises funds was also required.
- **Question 3** required an understanding of journal entries and also the application of various accounting principles.
- To gain full marks in **Question 4** a thorough knowledge of the preparation of an income statement of a club and an income and expenditure account were required.
- **Question 5** required candidates to be aware of the advantages of double entry bookkeeping and to be able to calculate credit sales and credit purchases. Knowledge of inventory valuation was also required.

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 the sections of the syllabus is necessary in order to achieve a pass grade.

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

It was very noticeable that a large number of candidates lost marks because they provided an incorrect figure without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should make sure that they 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 round up the payment period for trade payables to the next whole day.

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 provided 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

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not overlooked when the paper is being marker.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “E over E” for “excess of income over expenditure” and “nyp” for “not yet presented” 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

This question required candidates to up-date the cash book and prepare a bank reconciliation statement. Candidates were also required to calculate the payment period for trade payables and answer related theory questions. Theory questions on a petty cash book were also included in this question.

(a) It was expected that candidates would start with the balance brought down on the cash book and enter those items which appeared only on the bank statement. Many candidates unnecessarily wrote out the whole of the cash book as it appeared in the question and incorporated the additional items. A few candidates incorrectly included the bank error.

(b) Candidates were required to prepare a bank reconciliation statement. The majority of candidates failed to appreciate that both the amended cash book balance and the bank statement balance were overdrafts. This resulted in incorrect treatment of the cheque not presented and the amount not yet credited. The bank error was also frequently incorrectly treated.

Marks were lost when the cash book balance and the bank statement balance were incorrectly identified. A number of candidates also incorrectly identified the amount not credited as a cheque not presented; the cheque not presented was incorrectly identified as an amount not credited. Some candidates incorrectly presented their answer in the form of a ledger account.

(c) Using information provided, candidates were required to calculate the payment period for trade payables. The vast majority of candidates knew the formula for this calculation. Many failed to earn full marks as they ignored the instruction to round the answer up to the next whole day.

(d) Candidates were required to use their answer to **(c)** and to explain whether the credit suppliers would regard the payment period as satisfactory. There were some wholly correct responses. A few answers were too general and unrelated to the particular trader. Answers such as “it is too long” or “35 – 45 days is the norm” were not acceptable.

(e) Two possible advantages to the trader of paying her credit suppliers before the due date were required. There were many wholly correct responses. A few candidates incorrectly stated that the trader would get trade discount.

(f) One possible disadvantage to the trader of paying her credit suppliers before the due date was required. The majority of candidates explained that this would deprive the business of the use of the money earlier than necessary. A few incorrectly referred to problems of returning goods. It may be that same candidates failed to read the question carefully as they discussed the effect on the credit suppliers if the trader failed to pay on time.

(g) An explanation of the imprest system of petty cash was required. Candidates should have explained that, at the end of the month, the petty cash spent during the period is reimbursed by chief cashier, which results in the petty cashier starting each month with the same amount.

Some candidates incorrectly described the purpose of a petty cash book; others appeared to find it difficult to express themselves.

(h) Candidates were required to complete a table showing the double entries for two transactions appearing in a petty cash book. Most candidates correctly identified that the entries would be credited, but many were unsure of the account in which the entry would be made. Common

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incorrect responses included “imprest” and “petty cash” for the cash received to restore the imprest and “employee” and “drawings” for the cash received from employee.

Question 2

The topic of this question was limited liability companies. Candidates were required to prepare the balance sheet of a limited company and to answer related theory questions. Limited liability companies have now been on the syllabus for some time, but a large number of candidates did not appear to have a thorough understanding of the topic. Candidates are reminded that questions can be asked on any topic on the syllabus and it is unwise to omit topics from their course of study.

(a) Using a trial balance and additional information, a balance sheet of a limited company was required. Whilst a balance sheet in vertical format is preferable, a horizontal balance sheet was acceptable.

The non-current and current assets sections of the balance sheet should not have presented any problems. Many candidates ignored the depreciation of non-current assets. Those who did include this often presented three un-headed columns for the cost, depreciation to date and book value. The provision for doubtful debts should have been shown as a deduction from the trade receivables: some candidates deducted it from the total current assets or included it as a current liability. Petty cash was often omitted.

The bank overdraft was frequently shown as a current asset rather than a current liability. The proposed dividends should have been included in the current liabilities. Debentures were sometimes included as a current liability instead of being shown as a non-current liability. Many candidates incorrectly included $800 as a current liability and described it as “debentures”. It was expected that candidates would identify the net current assets.

The capital and reserves section should have shown the issued share capital of $140 000 divided into $40 000 5% preference shares and $100 000 ordinary shares. The general reserve ($12 000) and the retained profit ($8740) should have been added to the share capital. Some candidates incorrectly added the dividends on to the share capital and did not show the total of the general reserve (inserting either $3000 or $9000). A few candidates copied out the appropriation account in the last section of the balance sheet.

(b) Candidates were provided with details of a proposed share issue and were asked to calculate how much money this would raise. This should have been a relatively easy calculation. Very few candidates calculated the correct answer of $70 000. Common incorrect responses were –

Preference shares $60 000 + ordinary shares $75 000 = $135 000
Preference shares 60 000 x 5% + ordinary shares 150 000 x $0. 05 = $78 000

(c) One other source of funds had to be stated. As the funds were required for the purchase of premises, long-term funds were required in the form of long-term loans, debentures etc. No mark was awarded for answers such as “bank overdraft”, “increase selling prices”, “fund-raisers” etc.

One disadvantage of raising funds in this way had to be stated. Many correctly stated that the company would have to pay interest and that the capital sum would have to be repaid at a stated date in the future.

(d) Candidates were required to state, giving reasons, whether interim dividend on ordinary shares would be included in the appropriation account and the balance sheet. The variety of responses indicates a substantial degree of guesswork by a number of candidates. Whilst many correctly indicated that the interim dividend appears in the appropriation account they failed to offer a suitable explanation. Similarly, many indicated that interim dividend does not appear in the balance sheet, but could not provide a suitable reason.

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Question 3

This question required candidates to prepare three journal entries and to explain how these were applications of three named accounting principles. It was very surprising to find some candidates treating the three journal entries as cumulative, including the first journal entry in the second one, and then including the first two journal entries in the third. The question also included theory questions on reducing bad debts and the effect of correcting an error in relation to a provision for doubtful debts.

(a) A journal entry was required to record an invoice for the purchase of a new computer and repairs to an existing computer. Marks were lost for the incorrect account names. For example, it was not regarded as acceptable to use "He bought a new computer" in lieu of the name of an account. Some candidates incorrectly debited purchases account and credited bank account.

(b) Candidates were required to explain how the journal entry prepared in **(a)** was an application of the principle of duality. Most candidates discussed the idea of a debit and a credit entry or a giver and a receiver, but failed to relate this to the actual transaction.

(c) A journal entry was required to record a trader taking goods from the business for personal use. Common errors were to credit inventory, sales or cash and to debit Tarek (without indicating that it was his drawings account that was affected).

(d) An explanation was required on how the journal entry prepared in **(c)** was an application of the principle of business entity. Again, many candidates described the principle in general terms or simply re-iterated the question that the trader had withdrawn goods from the business. They failed to explain that this would be set against what the business owed the trader.

(e) A journal entry was required to create a provision for doubtful debts. Most candidates correctly showed a credit to the provision for doubtful debts account. A surprisingly large number debited either the bank or the trade receivables.

(f) An explanation was required on how the journal entry prepared in **(e)** was an application of the principle of prudence. Once again, a few candidates described the principle in general terms, but a large number did successfully relate the principle to the creation of the provision for doubtful debts.

(g) Candidates were required to state two ways in which a trader could reduce the risk of bad debts. Most candidates provided appropriate answers. A few candidates incorrectly suggested increasing the credit period, reducing the number of debtors and reducing the selling price.

(h) A table had to be completed to indicate the effect of correcting an error of omitting a provision for doubtful debts from the financial statements. A large number of candidates correctly indicated that the expenses for the year would increase and the profit for the year would decrease. The answers to the other two items caused more problems. The variety of responses indicates a substantial degree of guesswork by a number of candidates.

Question 4

The topic of this question was the accounts of clubs and societies. Using a receipts and payments account and additional information, candidates were required to prepare an income statement for the shop of a club and an income and expenditure account for the club. This should have been a straightforward question for the well-prepared candidate. However, a large number of marks were lost unnecessarily, especially in **(b)**.

(a) Candidates were required to prepare the income statement of the shop of a club. Most candidates presented this in vertical format, but a horizontal format was acceptable. Many candidates only made one error which was to omit the amount outstanding for shop purchases. A number of candidates included items such as subscriptions which should appear in the income and expenditure account. The profit for the year was sometimes incorrectly labelled.

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(b) An income and expenditure account in either vertical or horizontal format was required. A number of candidates incorrectly included items such as the sales and purchases of the shop and the cost of the equipment. A significant number of marks were lost because of the failure to show calculations for subscriptions, general expenses and insurance. Candidates are reminded that an incorrect figure without supporting calculations can gain no marks. The calculation of the depreciation of the equipment caused a few problems. It is always preferable to deduct the expenses from the income of a fund-raising activity so that the profit or loss of the event can be clearly seen.

Question 5

The first two parts of this question were on the topic of incomplete records. Candidates were required to explain two advantages of using double entry bookkeeping. A calculation of credit sales and credit purchases was then required. The last two parts of the question were on the topic of inventory valuation.

(a) Many candidates were able to suggest two acceptable advantages of double entry bookkeeping. The reduction of errors, the reduction of fraud and the ease of preparation of financial statements were popular correct answers. Some candidates incorrectly stated that this system totally removes errors. A number of candidates attempted to describe double entry rather than answering the question asked.

(b) Using the information provided, candidates were required to calculate the credit sales and credit purchases of a trader. Answers in the form of arithmetic calculations or ledger accounts were equally acceptable. There were a large number of wholly correct responses. Candidates electing to use a calculation rather than a ledger account sometimes appeared to be confused about what should be added and what deducted. Discounts allowed, discounts received and bad debts sometimes caused problems.

(c) Candidates were asked to explain why inventory should be included in the financial statements at the lower of cost and net realisable value. The vast majority of candidates explained that this was an application of the principle of prudence and that using the lower value ensured that neither the profit nor the asset was overstated.

(d) A table had to be completed to indicate the effect of using the cost price of the inventory for each of two years even though this was not the lowest value in the second year. There were very few wholly correct answers. Some candidates did not appreciate that an amount was also required if an entry was made in the overstated and understated columns. A common error was to insert a figure of $210 instead of $250 for part **(iii)**. The variety of responses indicates a substantial degree of guesswork by a number of candidates. In some cases the candidate's intention was unclear as a tick and an amount was placed in more than one column.

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ACCOUNTING

Paper 0452/22

Paper 22

Key messages

- The question paper contained a mixture of theory, practical application and some higher skills and in order to score well it is necessary to prepare topics across the syllabus.
- When preparing accounting records such as ledger accounts or journal entries the proper account names should be used and not descriptions of the transaction.
- Where questions require a written answer, the sense of the answer should be clearly stated and will earn marks even if the grammar or spelling is incorrect.
- To gain full marks in **Question 1** the candidates required a thorough knowledge of up-dating a cash book and preparing a bank reconciliation statement when a business had an overdrawn bank balance.
- To gain full marks in **Question 2** the candidates had to be able to prepare a balance sheet of a limited company. An understanding of how a limited company raises funds was also required.
- **Question 3** required an understanding of journal entries and also the application of various accounting principles.
- To gain full marks in **Question 4** a thorough knowledge of the preparation of an income statement of a club and an income and expenditure account were required.
- **Question 5** required candidates to be aware of the advantages of double entry bookkeeping and to be able to calculate credit sales and credit purchases. Knowledge of inventory valuation was also required.

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 the sections of the syllabus is necessary in order to achieve a pass grade.

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

It was very noticeable that a large number of candidates lost marks because they provided an incorrect figure without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should make sure that they 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 round up the payment period for trade payables to the next whole day.

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 provided 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

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not overlooked when the paper is being marker.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “E over E” for “excess of income over expenditure” and “nyp” for “not yet presented” 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

This question required candidates to up-date the cash book and prepare a bank reconciliation statement. Candidates were also required to calculate the payment period for trade payables and answer related theory questions. Theory questions on a petty cash book were also included in this question.

(a) It was expected that candidates would start with the balance brought down on the cash book and enter those items which appeared only on the bank statement. Many candidates unnecessarily wrote out the whole of the cash book as it appeared in the question and incorporated the additional items. A few candidates incorrectly included the bank error.

(b) Candidates were required to prepare a bank reconciliation statement. The majority of candidates failed to appreciate that both the amended cash book balance and the bank statement balance were overdrafts. This resulted in incorrect treatment of the cheque not presented and the amount not yet credited. The bank error was also frequently incorrectly treated.

Marks were lost when the cash book balance and the bank statement balance were incorrectly identified. A number of candidates also incorrectly identified the amount not credited as a cheque not presented; the cheque not presented was incorrectly identified as an amount not credited. Some candidates incorrectly presented their answer in the form of a ledger account.

(c) Using information provided, candidates were required to calculate the payment period for trade payables. The vast majority of candidates knew the formula for this calculation. Many failed to earn full marks as they ignored the instruction to round the answer up to the next whole day.

(d) Candidates were required to use their answer to **(c)** and to explain whether the credit suppliers would regard the payment period as satisfactory. There were some wholly correct responses. A few answers were too general and unrelated to the particular trader. Answers such as “it is too long” or “35 – 45 days is the norm” were not acceptable.

(e) Two possible advantages to the trader of paying her credit suppliers before the due date were required. There were many wholly correct responses. A few candidates incorrectly stated that the trader would get trade discount.

(f) One possible disadvantage to the trader of paying her credit suppliers before the due date was required. The majority of candidates explained that this would deprive the business of the use of the money earlier than necessary. A few incorrectly referred to problems of returning goods. It may be that same candidates failed to read the question carefully as they discussed the effect on the credit suppliers if the trader failed to pay on time.

(g) An explanation of the imprest system of petty cash was required. Candidates should have explained that, at the end of the month, the petty cash spent during the period is reimbursed by chief cashier, which results in the petty cashier starting each month with the same amount.

Some candidates incorrectly described the purpose of a petty cash book; others appeared to find it difficult to express themselves.

(h) Candidates were required to complete a table showing the double entries for two transactions appearing in a petty cash book. Most candidates correctly identified that the entries would be credited, but many were unsure of the account in which the entry would be made. Common

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incorrect responses included “imprest” and “petty cash” for the cash received to restore the imprest and “employee” and “drawings” for the cash received from employee.

Question 2

The topic of this question was limited liability companies. Candidates were required to prepare the balance sheet of a limited company and to answer related theory questions. Limited liability companies have now been on the syllabus for some time, but a large number of candidates did not appear to have a thorough understanding of the topic. Candidates are reminded that questions can be asked on any topic on the syllabus and it is unwise to omit topics from their course of study.

(a) Using a trial balance and additional information, a balance sheet of a limited company was required. Whilst a balance sheet in vertical format is preferable, a horizontal balance sheet was acceptable.

The non-current and current assets sections of the balance sheet should not have presented any problems. Many candidates ignored the depreciation of non-current assets. Those who did include this often presented three un-headed columns for the cost, depreciation to date and book value. The provision for doubtful debts should have been shown as a deduction from the trade receivables: some candidates deducted it from the total current assets or included it as a current liability. Petty cash was often omitted.

The bank overdraft was frequently shown as a current asset rather than a current liability. The proposed dividends should have been included in the current liabilities. Debentures were sometimes included as a current liability instead of being shown as a non-current liability. Many candidates incorrectly included $800 as a current liability and described it as “debentures”. It was expected that candidates would identify the net current assets.

The capital and reserves section should have shown the issued share capital of $140 000 divided into $40 000 5% preference shares and $100 000 ordinary shares. The general reserve ($12 000) and the retained profit ($8740) should have been added to the share capital. Some candidates incorrectly added the dividends on to the share capital and did not show the total of the general reserve (inserting either $3000 or $9000). A few candidates copied out the appropriation account in the last section of the balance sheet.

(b) Candidates were provided with details of a proposed share issue and were asked to calculate how much money this would raise. This should have been a relatively easy calculation. Very few candidates calculated the correct answer of $70 000. Common incorrect responses were –

Preference shares $60 000 + ordinary shares $75 000 = $135 000
Preference shares 60 000 x 5% + ordinary shares 150 000 x $0. 05 = $78 000

(c) One other source of funds had to be stated. As the funds were required for the purchase of premises, long-term funds were required in the form of long-term loans, debentures etc. No mark was awarded for answers such as “bank overdraft”, “increase selling prices”, “fund-raisers” etc.

One disadvantage of raising funds in this way had to be stated. Many correctly stated that the company would have to pay interest and that the capital sum would have to be repaid at a stated date in the future.

(d) Candidates were required to state, giving reasons, whether interim dividend on ordinary shares would be included in the appropriation account and the balance sheet. The variety of responses indicates a substantial degree of guesswork by a number of candidates. Whilst many correctly indicated that the interim dividend appears in the appropriation account they failed to offer a suitable explanation. Similarly, many indicated that interim dividend does not appear in the balance sheet, but could not provide a suitable reason.

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Question 3

This question required candidates to prepare three journal entries and to explain how these were applications of three named accounting principles. It was very surprising to find some candidates treating the three journal entries as cumulative, including the first journal entry in the second one, and then including the first two journal entries in the third. The question also included theory questions on reducing bad debts and the effect of correcting an error in relation to a provision for doubtful debts.

(a) A journal entry was required to record an invoice for the purchase of a new computer and repairs to an existing computer. Marks were lost for the incorrect account names. For example, it was not regarded as acceptable to use "He bought a new computer" in lieu of the name of an account. Some candidates incorrectly debited purchases account and credited bank account.

(b) Candidates were required to explain how the journal entry prepared in **(a)** was an application of the principle of duality. Most candidates discussed the idea of a debit and a credit entry or a giver and a receiver, but failed to relate this to the actual transaction.

(c) A journal entry was required to record a trader taking goods from the business for personal use. Common errors were to credit inventory, sales or cash and to debit Tarek (without indicating that it was his drawings account that was affected).

(d) An explanation was required on how the journal entry prepared in **(c)** was an application of the principle of business entity. Again, many candidates described the principle in general terms or simply re-iterated the question that the trader had withdrawn goods from the business. They failed to explain that this would be set against what the business owed the trader.

(e) A journal entry was required to create a provision for doubtful debts. Most candidates correctly showed a credit to the provision for doubtful debts account. A surprisingly large number debited either the bank or the trade receivables.

(f) An explanation was required on how the journal entry prepared in **(e)** was an application of the principle of prudence. Once again, a few candidates described the principle in general terms, but a large number did successfully relate the principle to the creation of the provision for doubtful debts.

(g) Candidates were required to state two ways in which a trader could reduce the risk of bad debts. Most candidates provided appropriate answers. A few candidates incorrectly suggested increasing the credit period, reducing the number of debtors and reducing the selling price.

(h) A table had to be completed to indicate the effect of correcting an error of omitting a provision for doubtful debts from the financial statements. A large number of candidates correctly indicated that the expenses for the year would increase and the profit for the year would decrease. The answers to the other two items caused more problems. The variety of responses indicates a substantial degree of guesswork by a number of candidates.

Question 4

The topic of this question was the accounts of clubs and societies. Using a receipts and payments account and additional information, candidates were required to prepare an income statement for the shop of a club and an income and expenditure account for the club. This should have been a straightforward question for the well-prepared candidate. However, a large number of marks were lost unnecessarily, especially in **(b)**.

(a) Candidates were required to prepare the income statement of the shop of a club. Most candidates presented this in vertical format, but a horizontal format was acceptable. Many candidates only made one error which was to omit the amount outstanding for shop purchases. A number of candidates included items such as subscriptions which should appear in the income and expenditure account. The profit for the year was sometimes incorrectly labelled.

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(b) An income and expenditure account in either vertical or horizontal format was required. A number of candidates incorrectly included items such as the sales and purchases of the shop and the cost of the equipment. A significant number of marks were lost because of the failure to show calculations for subscriptions, general expenses and insurance. Candidates are reminded that an incorrect figure without supporting calculations can gain no marks. The calculation of the depreciation of the equipment caused a few problems. It is always preferable to deduct the expenses from the income of a fund-raising activity so that the profit or loss of the event can be clearly seen.

Question 5

The first two parts of this question were on the topic of incomplete records. Candidates were required to explain two advantages of using double entry bookkeeping. A calculation of credit sales and credit purchases was then required. The last two parts of the question were on the topic of inventory valuation.

(a) Many candidates were able to suggest two acceptable advantages of double entry bookkeeping. The reduction of errors, the reduction of fraud and the ease of preparation of financial statements were popular correct answers. Some candidates incorrectly stated that this system totally removes errors. A number of candidates attempted to describe double entry rather than answering the question asked.

(b) Using the information provided, candidates were required to calculate the credit sales and credit purchases of a trader. Answers in the form of arithmetic calculations or ledger accounts were equally acceptable. There were a large number of wholly correct responses. Candidates electing to use a calculation rather than a ledger account sometimes appeared to be confused about what should be added and what deducted. Discounts allowed, discounts received and bad debts sometimes caused problems.

(c) Candidates were asked to explain why inventory should be included in the financial statements at the lower of cost and net realisable value. The vast majority of candidates explained that this was an application of the principle of prudence and that using the lower value ensured that neither the profit nor the asset was overstated.

(d) A table had to be completed to indicate the effect of using the cost price of the inventory for each of two years even though this was not the lowest value in the second year. There were very few wholly correct answers. Some candidates did not appreciate that an amount was also required if an entry was made in the overstated and understated columns. A common error was to insert a figure of $210 instead of $250 for part **(iii)**. The variety of responses indicates a substantial degree of guesswork by a number of candidates. In some cases the candidate's intention was unclear as a tick and an amount was placed in more than one column.

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ACCOUNTING

Paper 0452/23

Paper 23

Key messages

- The question paper contained a mixture of theory, practical application and some higher skills and in order to score well it is necessary to prepare topics across the syllabus.
- When preparing accounting records such as ledger accounts or journal entries the proper account names should be used and not descriptions of the transaction.
- Where questions require a written answer, the sense of the answer should be clearly stated and will earn marks even if the grammar or spelling is incorrect.
- To earn full marks on **Question 1** candidates required a thorough knowledge of three column cash books and the terms used in the preparation of bank reconciliation statements.
- **Question 2** required candidates to be able to prepare the appropriation account of a limited liability company and to answer various related theory questions.
- To gain full marks in **Question 3** candidates required an understanding of control accounts and to be able to calculate and understand the significance of the collection period for trade receivables.
- **Question 4** required candidates to be able to prepare a manufacturing account and income statement. Knowledge of the application of three accounting principles was also required.
- **Question 5** required candidates to be able to calculate and understand the significance of various accounting ratios. Knowledge of the effect of transactions on working capital was also required. Candidates were also required to appreciate why named business persons were interested in the financial statements of a trader.

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 questions can be set on any section of the syllabus therefore a thorough knowledge of all the sections of the syllabus is necessary in order to achieve a pass grade.

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

It was very noticeable that a large number of candidates lost marks because they provided an incorrect figure without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should make sure that they 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 round up the collection period for trade receivables to the next whole day.

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

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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.

Candidates are reminded that the use of inappropriate abbreviations will result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “PC” for “prime cost” and “Ord D” for ordinary share dividend” 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

Candidates were required to prepare a three column cash book, to answer a related theory question, and to answer three theory questions related to bank reconciliation.

(a) Using a list of transactions for a month, candidates were required to write up and balance a three column cash book. This should have been a straightforward question, and many candidates scored high marks.

Candidates lost marks due to incorrect narratives. Candidates are reminded that the details columns should contain the name of the account where the double entry is to be made. It is not sufficient to write “dishonoured cheque”: the name of the business in whose account this cheque is to be debited should appear. Similarly, “transfer” is not appropriate for a contra item. A small number of candidates failed to appreciate that it is not possible to have a credit balance brought down on the cash column.

(b) Candidates were required to state the bank balance that would be shown in the trader’s balance sheet and to state whether it was an asset or a liability. Many candidates correctly stated the closing balance of the cash book prepared in **(a)** and correctly identified it as an asset or a liability (depending on whether it was debit or credit in the cash book). A number of candidates incorrectly selected the bank statement balance.

(c) (i) Candidates were required to explain the meaning of the term “bank reconciliation statement”. Most candidates were able to explain that this is prepared by the trader to explain the difference between the balance on the bank statement and that in the cash book. Some candidates incorrectly stated that it was sent by the bank to the trader.

(ii) An explanation of the term “cheques not yet credited” was required. Marks were lost when candidates failed to provide a clear explanation that these are cheques received by the trader and recorded in the cash book, but which have not yet been recorded as received by the bank.

(iii) The term “cheques not yet presented” had to be explained. Again, marks were lost because of unclear or vague explanations. It was expected that candidates would understand that these are cheques paid by the trader and recorded in the cash book, but which have not yet been recorded as paid by the bank.

Question 2

The topic of this question was limited liability companies. Candidates were required to calculate the profit after preference share dividend, prepare an appropriation account and answer related theory questions on limited companies. Limited liability companies have now been on the syllabus for some time, but a number of candidates did not appear to have a thorough understanding of the topic. Candidates are reminded that questions can be asked on any topic on the syllabus and it is unwise to omit topics from their course of study.

(a) Candidates were required to calculate the profit for the year after the deduction of the preference share dividend. This should have been a straightforward calculation and there were many correct answers. Some candidates did not appear to understand what was required and provided some meaningless calculations for which no marks could be awarded.

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(b) Using the information provided, candidates were required to prepare a profit and loss appropriation account. A vertical account was preferred, but a horizontal account was quite acceptable. Many ignored the instruction to start with the profit for the year after preference dividend. Marks were also lost by the use of unsuitable labels or the lack of labels. A distinction should be made between ordinary share dividend proposed and ordinary share dividend paid. The retained profit forward and the retained profit carried forward should be clearly labelled. It is preference to deduct the appropriations from the profit for the year so that the retained profit for the year is revealed.

(c) Candidates were required to state the amounts which would appear in the balance sheet for the general reserve and the retained profit. Most candidates selected the correct figures and gained full marks. A number of candidates lost marks by using the profit for the year or the retained profit brought forward instead of the retained profit carried forward.

(d) An explanation of whether interim share dividend would appear in the year-end balance sheet was required. A large number of candidates simply stated either "yes" or "no" but failed to provide an acceptable explanation.

(e) Most candidates were able to offer suitable explanations of the meaning of the term "limited liability".

(f) Two features of preference shares were required. Popular correct answers included the fact that preference shareholders receive a fixed rate of dividend and do not usually have the right to vote at shareholders' meetings. A number of candidates lost marks because of incomplete or vague responses. For example, it is not adequate to state "they are paid first" or "they get a fixed amount".

Question 3

Candidates were required to answer theory questions on control accounts and to prepare a sales ledger control account. The calculation of the collection period for trade receivables and related theory questions were also included.

(a) Two advantages of preparing control accounts were required. Most candidates were able to provide two acceptable responses. It should be remembered that the preparation of control accounts does not actually prevent errors and fraud: they assist the location of errors and reduce the possibility of fraud. A few candidates incorrectly stated that control accounts are used to ascertain the total credit sales and the total credit purchases.

(b) Candidates were required to state one reason for a credit balance brought down on a sales ledger control account. There were many correct responses. A number of candidates incorrectly suggested sales returns and bad debts.

(c) Using information provided, candidates were required to select the appropriate figures and prepare a sales ledger control account. A "T" account or a three column running balance account was equally acceptable. There were many wholly correct accounts which gained full marks. Common errors were the inclusion of discount received and provision for doubtful debts, and entering the contra item on both sides. The balance of $100 on 1 November should have been entered on the debit side on 31 October and brought down as a credit balance on 1 November.

(d) Using the debit balance brought down on the sales ledger control account prepared in **(c)**, candidates were required to calculate the collection period for trade receivables. Many candidates gained full marks. Some candidates lost a mark as they failed to follow the instruction to round the answer up to the next whole day.

(e) Candidates were required to use their answer to **(d)** and to explain whether the trader would regard the collection period as satisfactory. There were some wholly correct answers. A few answers were too general and unrelated to the particular trader. Answers such as "it is too long" or "35-45 days is the norm" were not acceptable.

(f) One advantage of a trader being able to collect the trade receivables before the due date was required. Most candidates were able to provide suitable answers.

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Question 4

This question involved the preparation of a manufacturing account and an income statement for a manufacturing business. This should have been a straightforward question for well-prepared candidates. Candidates were also required to explain how three named accounting principles had been applied in the preparation of the manufacturing account and income statement.

(a) Using information provided candidates were required to prepare a manufacturing account. An account in vertical format was preferred, but horizontal format was acceptable. There were many wholly correct responses. A significant number of marks were lost by candidates who failed to show their calculations of direct factory wages, general expenses and depreciation. Candidates are reminded that an incorrect figure without supporting calculations can gain no marks. It is important to remember that the factory overheads should be added to the prime cost. The cost of materials used, the prime cost and the cost of production should be clearly labelled.

(b) An income statement to show the gross profit for the year was required. Vertical presentation was preferred, but horizontal format was acceptable. Once again, there were many wholly correct responses. A few candidates incorrectly included the purchases or raw materials instead of the cost of production calculation in part **(a)**. A common error was to deduct the goods withdrawn for personal use from the closing inventory rather than the cost of production.

(c) An explanation was required of how the prudence principle was applied in the preparation of the manufacturing account. It was expected that candidates would use an appropriate example to show how steps were taken to ensure that the profit was not overstated. Appropriate examples were the inventories being valued at the lower of cost and net realisable value and the inclusion of depreciation of factory machinery in the factory overheads.

(d) An explanation was required of how the accruals principle was applied in the preparation of the manufacturing account. Candidates were expected to use an appropriate example to show how costs of the period were matched against revenues. Appropriate examples included deducting direct wages due on 1 August 2010, adding direct wages due on 30 September 2011, deducting general expenses prepaid on 30 September 2011.

(e) An explanation was required of how the business entity principle was applied in the preparation of the income statement. It was expected that candidates would use the example of goods withdrawn for personal use to illustrate that the business is regarded as being a separate entity from the owner of the business.

Question 5

This question concentrated on the interpretation and calculation of accounting ratios. Sections on the importance of working capital and the effect of transactions on working capital were also included. The last section was based on the topic of interested parties.

(a) Candidates were provided with a trader's percentage of gross profit to sales for two years. Two reasons for the increase in this percentage were required. Answers should have concentrated on an increase in the selling price and a reduction in the cost price. Candidates should be aware that changes in quantities of goods bought and sold do not affect the percentage of gross profit to sales.

(b) Candidates were provided with a trader's percentage of net profit to sales for two years. Two reasons for the increase in this percentage were required. Most candidates correctly suggested a reduction in the expenses and an increase in the income.

(c) Using the information provided, candidates were required to calculate the percentage of expenses to sales. This should have been a straightforward calculation and many candidates earned full marks. The difference between the gross profit percentage and the net profit percentage is equal to the percentage of expenses.

(d) Using their answer to **(c)**, candidates were required to explain how the change in the percentage of expenses affected the efficiency of the business. The percentage of expenses had increased so candidates were expected to explain that this caused the efficiency of the business to decrease.

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(e) From a list of current assets and current liabilities, candidates were asked to calculate the current ratio. Many candidates provided wholly correct answers.

(f) Using the list of current assets and current liabilities, candidates were asked to calculate the quick ratio. Once again, many candidates provided wholly correct answers.

(g) Candidates had to compare the quick ratio calculated in **(f)** with that given for the previous year. Most candidates successfully stated that the trader would not be satisfied with the change as she was not able to pay her immediate liabilities from her liquid assets.

(h) An explanation of the importance of working capital was required. Many candidates were able to provide a suitable response and were awarded full marks.

(i) Three transactions were provided and candidates were required to state and explain how each transaction affected the working capital. In each transaction it was necessary to state the amount by which the working capital increased or decreased or if there was no effect. The explanation should have described the effect on both the current assets and the current liabilities.

(j) Candidates were required to state the reason why a bank manger, an employee, a credit supplier and a prospective purchaser of a business would be interested in the financial statements of a sole trader. Many candidates earned high marks on this section.

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