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# ACCOUNTING

**Paper 0452/12**

**Paper 12**

## Key Messages

It is essential that the International Accounting Standards (IAS) terminology is used in answers where appropriate.

Several of the answers required the completion of ledger accounts. In many instances balances on the accounts were not brought down to the next accounting period. Neither were the correct dates used when recording transactions.

Candidates should also remember that when making entries in ledger accounts the correct narrative is the name of the account where the opposite entry can be found. Narratives such as 'cash book' or 'trade receivables' were often wrongly used. These are not accounts found in the ledger.

In ledger accounts candidates should write in full 'balance c/d' and 'balance b/d', not abbreviate them to 'BCD' and 'BBD'. Likewise in financial statements, abbreviations such as 'gp' for 'gross profit' and 'np' for 'net profit' must be avoided. Indeed rather than 'net profit' candidates should label it 'profit for the year' in line with IAS terminology.

## General Comments

Many candidates performed well on the paper and scored high marks.

**Question 1** contained ten multiple choice questions for one mark each.

**Question 2** began with two knowledge based questions asking for definition of an asset and the difference between a statement of financial position and an income statement. Candidates were then required to answer short questions related to trial balance, recording of business transactions and cash book.

**Question 3** started by asking candidates to complete the provision for depreciation of motor vehicles account and motor vehicle disposal account from given data. They were then required to prepare an extract from the statement of financial position showing the entries for motor vehicles. There were also short questions on books of prime entry used when preparing a disposal account and stating the meaning of the term revenue expenditure.

**Question 4** required candidates to calculate the owner's purchases for the year from the data provided. Candidates were also required to complete the sales ledger control account. There were also some theory questions on the related topics.

**Question 5** focused on manufacturing account, income statement and statement of financial position.

In **Question 6** candidates had to calculate a corrected profit after adjusting the draft profit for four items not taken into account in the original calculation. They were then required to complete a statement of financial position for the business. The question also assessed candidates on their knowledge of accounting concepts.

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**Comments on Specific Questions**

**Question 1**

There were ten multiple choice questions to be completed.

**(a)** Most candidates calculated the correct capital of the owner.

**(b)** This was not well answered. Many candidates did not appreciate that if there is a debit balance in the business cash book then there would be a credit balance on the bank statement.

**(c)** This was well answered with most identifying that depreciation is provided to spread the costs of an asset over its useful life.

**(d)** Many candidates did not answer this correctly. The amount appearing in the statement of financial position would be for 11 months prepaid. A significant number wrongly stated the amount to include as an expense in the income statement as the prepayment.

**(e)** An item of inventory is shown at the lower of cost and net realisable value in the statement of financial position.

**(f)** Most candidates correctly identified the correct answer.

**(g)** Most candidates correctly identified the correct definition of retained earnings from the information given.

**(h)** Most candidates identified the correct answer.

**(i)** Only half the candidates gave the correct answer. If a surplus delivery vehicle is sold for cash or credit, both will increase the current assets of the business, thus improving working capital.

**(j)** Many candidates did not answer this correctly. A business will look at a potential customer's financial statements to calculate the trade payables payment period. The statements supplied will be unlikely to reveal the level of bad debts, which was the wrong answer most often given.

**Question 2**

**(a)** Candidates were asked to give a definition of an asset. Most simply stated that it was something owned by the business. Although this is correct it is also something owed to the business and this was also required in the answer.

**(b)** This question was not well answered. The statement of financial position shows the assets and liabilities of a business at a point in time. Both of these elements were required. Similarly, the income statement shows all the revenues and costs for a specific period; again both elements were required. Many simply stated that it is used to calculate the gross and net profit of the business.

**(c)** This was well answered with most achieving full marks.

**(d)** This too was generally well answered. The most common errors were candidates stating cash book, rather than cash. There is no account called cash book. Some candidates also showed the cost of goods sold rather than their selling price.

**(e)** Candidates were required to enter the data into the bank columns of the cash book. This meant that only those transactions which affected the bank should have been entered. A significant number included all the transactions, both cash and bank. The account was sometimes not balanced or balanced at the wrong date by some candidates, despite the question being quite specific about the date. Dates are an important part of a ledger account and must always be shown.

**(f)** The majority of candidates correctly identified that the transactions relating to drawings on 4 February reduced the owner's capital.


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**Question 3**

**(a)** Few candidates prepared the two accounts required in the question well. The provision for depreciation account should have included the opening balance which was then transferred to the disposal account and the charge for the year on the new vehicle. Many candidates charged a year's depreciation on the vehicle sold. Some candidates did not balance the account or recorded the dates incorrectly. Many candidates referred to profit and loss account rather than income statement. Similar comments regarding dates and closing the account also apply to the disposal account. A number of candidates recorded the cost of the new vehicle ($ 24 000) rather than the cost of the vehicle disposed of ($ 17 000) on the debit side of the account.

**(b)** Most common error on this question was referring to non-current assets as fixed assets. The figure for accumulated depreciation should have been the figure brought down in provision for depreciation account in part **(a)**. Many candidates recalculated a new figure. Many also wrongly recorded the cost as $ 17 000.

**(c)** The calculation of the depreciation charge for the new year should also have been based on candidates own figure for the net book value calculated in **(b)**, which most correctly did. In some cases a new figure was calculated.

**(d)** Only the journal and cash book would be used as books of prime entry to record the disposal of a non-current asset. A significant number of candidates wrongly stated other books such as sales and often purchases journals.

**(e)** The meaning of the term revenue expenditure was quite well answered. The key wording was money spent on a day to day basis. A suitable example was also usually provided.

**Question 4**

**(a)** Candidates were required to calculate the business owner's purchases for the year from the data provided. The most common error was in the way candidates applied the mark up. The mark up was 50%, which meant that the cost of sales was two-thirds of the sales figure.

Closing inventory should have been added to the cost of sales figure calculated and opening inventory deducted. The question simply asked for a calculation, so any approach could have been used. Many used a trading account format which was quite acceptable.

**(b)** Candidates were required to prepare the owner's sales ledger control account. Common errors included the following:

- including cash sales as well as credit sales
- bringing down the closing balance of $ 200 on the wrong side of the account
- not including the years in the date column.

Another common error related to incorrect labelling of items. 'Refunds to customers' were used rather than 'bank'. Similarly, on the credit side 'receipt from customers' was used rather than 'bank'. The contra entry was often labelled as purchases ledger.

**(c)** Most candidates gave one valid reason why a sales ledger control account is maintained. Candidates should remember that it is *not* used to calculate the sales for the year or to manage the payments of customers.

**(d)** Candidates had to identify one reason why a credit balance may arise on a sales ledger control account. This was not well done. Valid reasons are overpayment by the customer, or prepayment by the customer. Incorrect answers included the customer also being a supplier or a contra entry.

**(e)** Most candidates could not identify why a sales ledger control account does not contain an entry for provision for doubtful debts. It is because no entry is made for it in a debtor's account. A sales ledger control account shows in total the items entered in a debtor's account. If no entry is made for an item in the debtor's account then no entry will be made in the control account.


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**Question 5**

**(a)** Most candidates performed well on this. The most common error was to include discount received, which is not an expense. Items which appear in the overheads section of the manufacturing account such as direct labour and raw materials were also sometimes stated.

**(b)** This required the completion of a manufacturing account to identify the prime cost. This was quite well done. Most common error was incorrectly labelling 'inventory' as 'stock'. The label for 'prime cost' was also omitted. 'Raw materials' was abbreviated to 'RM' which is not acceptable.

**(c)** Very few candidates stated an acceptable reason why the business owner might want to know his cost of production. The most common incorrect answer given was to calculate his gross and/or net profit (profit for the year).

**(d)** Candidates were required to calculate the value of closing inventory to include in the business's statement of financial position. Many candidates correctly listed all three categories of inventory which would be included. Some only gave the finished goods figure. Others netted-off the opening and closing inventory.

**Question 6**

**(a)** Candidates had to show the effect on the draft profit of adjusting it for four items not included when it was calculated. Most candidates correctly calculated the effect of two of the four items. A common mistake was to adjust the profit in the wrong direction. Though many candidates adjusted the items and amount in the right direction, they did not recalculate the revised profit.

**(b)** Many candidates prepared the statement of financial position correctly. Some used incorrect labelling referring to 'fixed assets' 'stock' and 'debtors', despite the correct labels in the question. The capital section should have included the candidate's own revised profit figure from **(a)**. This was sometimes not used, but the original profit figure of $ 26 200.

**(c)** Candidates had to explain the accruals (matching) and business entity concepts and give examples of each. Most candidates correctly explained one of the two. With the accruals concepts the fact that matching takes place in the same accounting period is important and quite often not stated. With the business entity concept the fact that the owner's personal financial transactions are not recorded in the business books of account is also important and often not stated. Most, though, did give valid examples of the two concepts.

**(d)** All four ratios would increase as a result of the goods taken for own use. Most candidates said only two would increase the ratio and the other two would decrease as a result.


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# ACCOUNTING

**Paper 0452/22**

**Paper 22**

## Key Messages

**Question 1** was on the topic of bad debts, provision for doubtful debts and bad debts recovered. After completing theory questions, candidates were required to prepare journal entries to write off a bad debt and to adjust the provision for doubtful debts, and then state the effect of errors on the profit for the year.

In **Question 2** candidates were required to answer short questions on trade discount and business documents and to write up the accounts of two credit suppliers.

**Question 3** was on the topic of accruals and prepayments and candidates had to write up an expense account and an income account.

**Question 4** required candidates to calculate various accounting ratios and to answer related theory questions.

Limited liability companies were the topic of **Question 5**. Learners were required to prepare an income statement and a statement of changes in equity. Theory questions on debentures and different types of shares were also included.

In **Question 6** candidates were required to prepare a profit and loss appropriation account and a statement of financial position of a partnership, and to answer related theory questions.

## General Comments

All the questions on this paper were compulsory and covered various topics on the syllabus.

It is important that candidates appreciate that a question can be set on any section of the syllabus and a thorough knowledge of all sections is necessary.

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

Most candidates provided supporting calculations where appropriate. This ensured that they were able to earn at least some of the available marks, even though the final answer was incorrect.

Candidates are reminded of the importance of following the instructions on the paper.

It is important to read through each question carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked. For example, marks could not be awarded for two disadvantages of being a partner when the question required two advantages.

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 just a tick.

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. The few candidates who did require additional space for answers did indicate this by putting a note "continued on page…" or "please refer to page…" This ensured that this additional work was not overlooked.



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Only a very few candidates used inappropriate abbreviations such as “b/d” for “balance brought down” and “PS” for “partner’s salary”.

The majority of candidates used international accounting terminology where appropriate.

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

## Comments on Specific Questions

### Question 1

**(a)** Candidates were required to explain the meaning of the terms bad debts, bad debts recovered and provision for doubtful debts. Many candidates provided suitable explanations and earned all the available marks.

**(b)** Two ways in which a trader could reduce the risk of bad debts were required. Again, there were some good responses.

**(c)** An explanation was required on why maintaining a provision for doubtful debts is an application of the principle of prudence. Many candidates correctly explained that this ensures that the profit for the year and the trade receivables at the year-end are not overstated.

**(d)** Using information provided, candidates were required to prepare journal entries to write off a bad debt and to adjust the provision for doubtful debts. Narratives were required. Candidates are reminded that the exact account names should be shown in the journal entry. For example, there is no account entitled “Adjustment to provision account” or “Written off account”. There were many wholly correct answers. A small number of candidates showed the transfer from the bad debts account to the income statement rather than writing off the specific debt. In this scenario, the provision decreased so the journal entry should have shown a debit to the provision for doubtful debts account and a credit to income statement.

**(e)** Candidates were informed that the bad debts recovered and the adjustment to the provision for doubtful debts had been omitted from the income statement. A table had to be completed to indicate by how much the profit was under/overstated because of these errors. The majority of candidates correctly indicated that the profit would be understated by $123 because of omitting the bad debts recovered. The effect of omitting the adjustment to the provision was more challenging, although a good number of candidates correctly indicated that the profit would be understated by $21 because of this error.

### Question 2

**(a)** A trader’s purchases journal and the purchases returns journal were provided and candidates were required to calculate the list price of goods purchased on a given date. The value shown in the purchases journal was the net amount. Many candidates appreciated that this figure represented 80% of the list price and correctly calculated the list price of $800. A common incorrect answer was $768 (the net price plus 20%)

**(b)** Candidates were required to state why trade discount was deducted from the goods returned to the supplier. A number of candidates were able to explain that the goods had to be recorded at the price the trader was originally charged for these goods. A number of candidates incorrectly discussed the reasons why trade discount is allowed on purchases.

**(c)** A table had to be completed naming the business documents used by the trader to record three transactions. There were many wholly correct responses. A number of candidates incorrectly suggested that the document used to record purchases returns is a debit note. This is a document which the trader sends to the supplier asking for a reduction in the invoice: this is not recorded in the accounting records. The supplier will issue a credit note agreeing to the invoice reduction and it is this document which is used to make the entries in the accounts. The document which is evidence of payment is a cheque/cheque counterfoil or a receipt; it is not an invoice or a statement of account.


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**(d)** Using the information provided, candidates were required to prepare the ledger accounts of two credit suppliers. Once again, many candidates performed well on these. It is important to remember that, apart from the balances, the details column should contain the name of the account in which the double entry will be made. This means that wording such as "dishonoured cheque" is not acceptable. The entries in any ledger account should be dated. Inappropriate abbreviations such as "b/d", "c/d", "PR" and "D" are not acceptable.

**Question 3**

**(a)** A combined account for rates and insurance had to be prepared. This should have started with a debit balance of $700 for the insurance and a credit balance of $480 for the rates. The total amounts paid during the year should have been debited: a few candidates incorrectly adjusted these amounts to represent the amounts relating to this particular financial year. It was expected that candidates would calculate that rates of $160 and insurance of $800 were prepaid. These amounts should have been credited and brought down as debit balances. The expense for the year should have been transferred to the income statement.

**(b)** Candidates were required to name, giving a reason, the section of the statement of financial position in which the balance on the rates and insurance account would appear. As both of these expenses were prepaid, the balance of the account would have appeared in the current assets.

**(c)** A rent receivable account had to be prepared. A number of candidates treated this as rent paid and completely reversed the account. The amount of rent received should have been credited. The income relating to the financial year should have been debited and transferred to the income statement.

**(d)** Candidates were required to name, giving a reason, the section of the statement of financial position in which the balance on the rent receivable account would appear. This represented an amount owed by the tenant and so should have been included in the current assets. Once again, a few candidates incorrectly made reference to the income statement.

**Question 4**

**(a)** A calculation of the gross profit as a percentage of revenue was required. Using the data provided, the majority of candidates were able to ascertain the gross profit and correctly calculate this as a percentage of the revenue. A few candidates did not follow the instruction to show the calculation to two decimal places.

**(b)** Two reasons for the decrease in the gross profit percentage were required. Most candidates offered appropriate suggestions. It is important to remember that changes in quantities bought or sold will not affect the gross profit percentage.

**(c)** A calculation of the profit for the year as a percentage of revenue was required. Using the gross profit calculated in **(a)** and the given figure of expenses, candidates were able to ascertain the profit for the year. Many candidates correctly calculated the ratio. Once again, a few did not show the calculation correct to two decimal places.

**(d)** A list of current assets and current liabilities was provided and candidates were required to calculate the current ratio. A small number of candidates treated the bank overdraft and the petty cash incorrectly, but many earned the two available marks.

**(e)** Candidates were required to comment on the current ratio calculated in **(d)**. A number of candidates correctly explained that the current liabilities were easily covered by the current assets and that the ratio was just slightly lower than the "benchmark". A few answers were a little imprecise, discussing assets and liabilities in general, rather than the relationship between the current assets and current liabilities.

**(f)** Using the information provided, the quick ratio had to be calculated. The majority of candidates understood that inventory should be excluded from this calculation. A small number of candidates incorrectly deducted the inventory from the trade receivables and the petty cash: the inventory should have been deducted from the *total* current assets.


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**(g)** One reason for the decrease in the quick ratio was required. A popular correct response was that the inventory had increased. A small number of candidates incorrectly suggested an increase in drawings: this is not appropriate in this particular scenario as the business was a limited company.

**(h)** Using the data provided, candidates were required to calculate the collection period for trade receivables. Many candidates provided wholly correct answers. A number of candidates did not round the answer up to the next whole day.

**(i)** Candidates were required to state, giving a reason, whether the business would be satisfied with the collection period for trade receivables. Most candidates correctly stated that the period was not satisfactory and were able to explain the consequences which may occur as a result of the credit period being exceeded.

**Question 5**

**(a)** Candidates were required to prepare an income statement for a limited company using the list of balances and additional information at the end of the financial year. Many candidates earned high marks. It is important to remember that showing calculations for the items adjusted for accruals and prepayments and depreciation may result in some of the available marks being awarded even if the final figure is incorrect. A common error was to miscalculate the depreciation on the fixtures. The final figure should have been labelled “profit for the year” rather than “net profit”.

**(b)** Using the information provided at the start of the question and the profit for the year calculated in **(a)**, candidates were required to prepare a statement of changes in equity. This is a new section on the syllabus, but many candidates had obviously studied the topic and were able to earn high marks. However, a significant number of candidates appeared to be unfamiliar with this type of statement. Candidates are reminded that questions may be set on any section of the syllabus.

**(c)** Two features of debentures had to be stated. Many candidates earned both the available marks.

**(d)** Two features of preference shares had to be stated. Once again, many candidates earned full marks.

**(e)** Candidates were told that the company was aiming to raise funds for expansion by the issue of ordinary shares rather than the issue of preference shares or debentures. Two reasons why this may be more beneficial to the ordinary shareholders were required. A few candidates did not relate their answer to the question and listed features of ordinary shares. Other candidates stated that the annual ordinary share dividend would rise significantly. A number did correctly explain that there would be no prior claims on the profit because of debenture interest and preference share dividend. Similarly, in the event of a winding up there would be no prior claims on the assets of the company.

**Question 6**

**(a)** Two advantages of being a partner rather than a sole trader were required. Most candidates were able to offer suitable advantages and earned the two available marks.

**(b)** Candidates were required to state one reason why a partnership agreement should be drawn up when a partnership is formed. Once again, most candidates provided an acceptable answer.

**(c)** Common errors included incorrect calculations of the interest on capital for Ben, and the partnership salary for Tom. Ben contributed additional capital of $ 10 000 half way through the financial year, so the interest on capital should have been $ 2850. Tom’s partnership salary increased after four months of the financial year, so the salary should have been $ 11 000. A number of candidates included extraneous items in the account such as capital, drawings, loan and loan interest.

**(d)** Using the data provided and the profit and loss appropriation account prepared in **(c)**, candidates were required to prepare a statement of financial position. The details of the current accounts could be either shown within the statement or as separate calculations outside. Most candidates prepared detailed current accounts and then inserted the closing balance on these accounts in the statement. A common error was to omit the loan interest from the current account of Tom. However, there were many wholly correct answers.


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