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ACCOUNTING

Paper 9706/12
Multiple Choice

Question Number	*Key*	*Question Number*	*Key*
1	**D**	16	**D**
2	**B**	17	**C**
3	**D**	18	**A**
4	**C**	19	**B**
5	**A**	20	**D**
6	**C**	21	**B**
7	**C**	22	**B**
8	**A**	23	**C**
9	**B**	24	**D**
10	**B**	25	**A**
11	**A**	26	**D**
12	**A**	27	**B**
13	**C**	28	**C**
14	**B**	29	**B**
15	**D**	30	**B**

Key messages

Read the questions carefully. Identify what you are being asked and eliminate any data which is not relevant.

General comments

There were only three questions where more than 70 per cent of candidates identified the correct option: **19**, **20** and **30**. There were four questions which merit some discussion, even though more than 30 per cent of candidates identified the correct key. These have been reviewed below.

Comments on specific questions

Question 1

Candidates were required to identify the correct accounting concept from the facts. The key was **D**, realisation. The goods had been sold on the last day of the trader's accounting year. They should, therefore be included in the financial statements for that year, even though the money from the sale may not have been received then. The customer would appear as a trade receivable at the year end.

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Question 7

This type of question requires candidates to identify a starting point for their calculations, in this case the cash book balance of $2000. Then to consider how each error would reflect in the cash book. The receipt of $2700 would mean the cash book balance was lower than the bank statement as it had not been recorded. Likewise, the payment would have meant the cash book balance would have been higher. The incorrect recording of the bank charges would have led to lower cash book balance. The effect of all this was a calculation of:

$(2000 – 2700 + 3000 – 100) = $2200, the key **C**.

Question 8

The majority of candidates did not identify that the figure given for trade receivables was **after** the new provision had been deducted. Thus, it needed to be grossed up to arrive at the figure before the provision to find the amount of the provision. In this case $6200. The change in provision was a decrease of $2100, the key **A**.

Question 28

The majority of candidates opted for **B**, which included the statement: 'It assumes that only activity levels are uncertain'. This statement therefore eliminates the other two. The correct answer was **C**, as both those statements apply to cost-volume-profit analysis.

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Paper 9706/22
AS/A Level Structured Questions

Key messages

Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings.

In written questions, candidates should make sure that they provide sufficient development to their answers.

Candidates should remember that the financial statements of a limited company must be presented in the accepted format.

General comments

Overall candidates demonstrated a reasonable performance on all questions. Candidates should understand the importance of correct narrative detail when preparing T-accounts.

Comments on specific questions

Question 1

The question concerned the accounts of a limited company.

(a) There were a number of very good responses with a noticeable improvement in presentation. A number of well-prepared candidates were able to gain full marks. Some candidates did not correctly adjust for the items of damaged inventory and adjustment of the opening accrual for administrative expenses was often added instead of deducted.

(b) Very few candidates were able to offer more than an unclear explanation as to the meaning of reserves being maintained in their most flexible form.

(c) Preparation of the ordinary share capital account produced mixed responses. Several candidates included dividends in the account, and did not separate the share premium and retained earnings segments of the issue.

(d) Preparation of the statement of changes in equity was generally well done. The most common error was the inclusion of the proposed dividend that was not to be paid until after the year-end. Candidates must be made aware that the statement of changes in equity is part of the published financial statements and as such, correct labelling is important.

(e) Many candidates produced a well-argued discussion of both options together with a valid, supported decision. The most common error from many candidates was to state that dividends would have to be paid without noting the discretionary nature of such payments.

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Question 2

The second question focussed on non-current assets and depreciation.

(a) (i) Most candidates were able to state three possible causes of depreciation.

(ii) Many candidates were able to gain full marks by explaining that the prudence and accruals/ matching concepts were applied when providing for depreciation.

(b) (i)/(ii) Preparation of the provision for depreciation account and the disposal account were not satisfactory. Firstly, candidates should be aware that T-accounts MUST include dates and details – they are incomplete without them. Many candidates did not demonstrate knowledge of basic bookkeeping, though well-prepared candidates were able to produce totally correct accounts.

Question 3

The question concentrated on sales ledger control accounts.

(a) Most candidates were able to offer three advantages to a business of preparing control accounts, though development of the advantages was often either missing or very vague.

(b) Preparation of the sales ledger control account was generally very well done by a large number of candidates. The most common error related to the narrative entered in the details column. Many candidates stated 'receipts from trade receivables' whereas the correct narrative is 'bank'. Less well-prepared candidates included items such as cash sales in the control account.

Question 4

The question focussed mainly on absorption costing and responses were very mixed.

(a) Very few candidates were able to explain the difference between overhead allocation and overhead apportionment. Most simply stated that one allocated and one apportioned.

(b) (i) The meaning of a production department resulted in some excellent responses though some candidates simply responded that it involved making a product without indicating that it is directly involved in the production.

(ii) Many answers were too vague, missing the point that service departments are indirectly involved in production.

(c) Completion of the table to apportion the overheads was generally well done by most candidates.

(d) Calculation of the overhead absorption rate was well done by most candidates though a number of them did not state the basis, that is, per labour hour or per machine hour.

(e) Few candidates were able to explain the reason for the re-apportionment of service department costs. Some candidates did not recognise that the purpose was to ensure that all costs are then recovered in the sale of products being the main issue.

(f) The question on limitations of absorption costing was not well answered. The fact that it is not useful for short-term decision making was often the only valid response.

(g) Calculation of the price to quote for the special order was generally answered reasonably well. A majority of candidates were unable to correctly apply the correct mark-up.

(h) The final task, to advise whether or not to accept the customer's offer, was well answered with most candidates sating the effect on profit and the effect on other existing customers.

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Paper 9706/32
AS/A Level Structured Questions

Key messages

General comments

Overall performance was reasonable. **Question 6** was the best answered question whilst questions 2 and 4 were not answered well. There was no evidence of the time constraint affecting candidate performance.

Comments on specific questions

Question 1

(a) The manufacturing account was prepared to a high standard by most candidates with some fully correct accounts. The most common error was the incorrect use of a 20% mark-up which was the mark-up for the previous year.

(b) The income statement was prepared to a reasonable standard. Common errors included the omission of the manufacturing profit and failing to adjust the given opening inventory cost valuation.

(c) The calculation was well answered with many candidates being awarded both marks.

(d) The question was well answered with most candidates correctly identifying the relevant concepts and then providing appropriate explanations of the treatment of unrealised profit in the financial statements.

(e) Although most candidates did provide the required advice, very few were able to justify their given advice satisfactorily.

Question 2

(a) Although there were a significant number of fully correct trading accounts many candidates incorrectly adjusted the purchases figure and/ or did not label cost of sales.

(b) There were a limited number of fully correct accounts but also a range of errors including the incorrect calculation(s) of subscriptions/furniture and fixtures and the inclusion of depreciation in the account.

(c) Most candidates were able to correctly state two differences as required.

(d) (i) This was not well answered with few candidates identifying that the donation would be capitalised and transferred to income and expenditure in future years.

(d) (ii) This was answered better than **(d)(i)** with most candidates identifying that the donation was specific to the pool but development was generally not satisfactory.

(e) Although there were some responses which were awarded all available marks, some candidates incorrectly advised that the distribution should be made which demonstrated a lack of understanding of clubs.

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Question 3

(a) This was well answered with most candidates calculating the values of goodwill for both businesses correctly. Some candidates made addition errors.

(b) The statement of financial position was well prepared with some fully correct statements. The most common errors were the incorrect treatment of the calculated goodwill and the failure to account for the resulting cash at bank correctly.

(c) There were relatively few correct calculations as many candidates incorrectly credited the capital accounts with goodwill.

(d) This was well answered with most candidates providing an appropriate explanation.

(e) This was less well answered than **(d)** but most candidates did refer to the concept of prudence and so achieved some credit but the development of the explanation was generally unsatisfactory.

(f) Although few candidates were awarded full marks most were able to state some of the required advantages and disadvantages of the options.

Question 4

(a) Some candidates did not give their answers to two decimal places as was required. Few candidates did not calculate the earnings per share correctly as they omitted the interest charged on the debenture from their calculation of the earnings. The price earnings ratio was generally calculated correctly but many candidates were unable to calculate the dividend cover and dividend yield.

(b) Candidates invariably identified that a higher dividend cover may attract investors but very few identified any other relevant points.

(c) Although most candidates provided a reasonable definition of a liability few were able to define a provision or contingent liability. A significant number of candidates did not attempt to define a contingent liability.

(d) This was not well answered but most candidates identified the relevant International Accounting Standard and often stated that there would be a reduction in profit and an increase in current liabilities.

(e) Most candidates provided the required advice and justified this by explaining relevant points for both options.

Question 5

(a) (i) Most candidates explained the meaning of ‘master budget’ to an acceptable standard.

(a) (ii) The majority of candidates were able to correctly state two components of a master budget. A limited number incorrectly stated income statement and / or statement of financial position.

(b) (i) The production budget was well prepared with many fully correct budgets. The most common errors were the omission of the opening inventory and the incorrect treatment of the opening and closing inventories.

(b) (ii) The purchases budget was also well prepared but there were less fully correct budgets. Errors included the incorrect treatment of the closing direct materials inventory as well as general arithmetic errors.

(c) Those candidates who had prepared the production and purchases budgets correctly generally made the required calculation without errors. Many candidates mixed units and kilos when making their calculation and some used an incorrect price per kilo when converting to a monetary value.

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(d) Although some candidates did identify that profit would be higher and cost of sales lower when using first-in, first-out the general explanations often did not address the requirement of the question.

(e) This was well answered by most candidates. Some candidates just addressed one side of the argument.

Question 6

(a) (i) Most candidates were able to correctly calculate the payback period. A limited number did not give their answer in months and a few rounded incorrectly.

(a) (ii) Nearly all candidates correctly calculated the net present value (NPV) and there were no common errors. There were a few candidates who made arithmetic errors and/or gave their answer as a positive NPV when it was in fact negative.

(a) (iii) There were many correct calculations but marks were often lost for applying the formula incorrectly and for not giving the answer as a percentage.

(b) Nearly all candidates provided the required advice and most explained their reasoning appropriately. However, some candidates lacked the ability to explain the internal rate of return with reference to the cost of capital.

(c) This was also well answered. The calculations were generally correct but some candidates calculated the new price of the machine incorrectly at $384 000 by multiplying the cost including the tariff by 80%. The calculations were invariably supported by relevant comments.

(d) In line with the rest of the question this was well answered with many candidates able to explain why the methods are used and there were no common errors or omissions.