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ACCOUNTING

Paper 9706/12
Multiple Choice

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

Key messages

- Read the questions carefully. Identify what you are being asked and eliminate any data which is not relevant.
- Review the double entries required on the disposal of a non-current asset.
- Identify the effect on residual profits when partners receive interest on drawings.

General comments

This is reflected in the fact that there were only four questions where more than 70 per cent of candidates identified the correct option: **1**, **4**, **12** and **19**. There were four questions which merit some discussion. These have been reviewed below.

Comments on specific questions

Question 5

The majority of candidates opted for **B** as the key, thereby ignoring the value of the vehicle traded in as part exchange. This would have been debited in the motor vehicles at cost account. Thus the correct calculation was:

$(312 000 + 30 000 + 8000) – $ 305 000 = $45 000, being the key **C**.

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Question 10

Many candidates opted for an answer which included data which should have been eliminated. The irrecoverable debt had been written off during the year. It could not, therefore, have been included in the balance of trade receivables at the end of the year. The provision for doubtful debts should have been calculated on the trade receivables figure of $37 500, which would have led to the key **C**.

Question 15

The introduction of interest on drawings would have the effect of increasing the profit for the year. This is accounted for by debiting Annie's current account with $1300. Bernie's interest on drawings would also have the effect of increasing the residual profit. Thus the increase in Annie's share of residual profit was $(1300 + 800) \times 2/3$, which gives the key **C**.

Question 24

Of all the options given only one of them relates to a fixed cost increasing. Thus the key was **A**. The other three increases referred to will all have the effect of reducing the fixed overhead absorption rate.

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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. One or two-word answers will seldom suffice.
- All financial statements must be presented in the accepted format. Labels such as gross profit, cost of sales etc. should always be written in full, never abbreviated.
- Candidates must get familiar with acceptable formats for both financial statements and management accounting statements such as marginal costing statements.

General comments

The overall standard of candidates' work was generally good, though it was apparent that a minority of candidates were not fully prepared for the examination.

Comments on specific questions

Question 1

(a) The question task required candidates to state two reasons why partnership agreements may include interest on drawings. Many candidates correctly stated that one reason was to limit the amount of drawings taken however, only a few recognised that the interest rewarded those partners who withdrew the least.

(b) The question task required candidates to prepare a partnership appropriation account and a majority of candidates scored all five available marks. The most common errors were to treat the interest on capital and interest on drawings incorrectly and not labelling the residual profit.

(c) Preparation of Javed's current account was generally well done and well-prepared candidates were able to secure all six marks. The most common error was a tendency to enter some of the transactions on the wrong side of the account.

(d) The question task required candidates to explain the meaning of goodwill. Many candidates correctly identified either good reputation or the fair value of the net assets of the business, though few identified both points to gain a second mark.

(e) Following on from the previous task, many candidates were able to explain why a valuation of goodwill could be made when a partner retires.

(f) This question task required candidates to prepare a statement showing the amount due to the retiring partner. This was often answered in an acceptable form of a ledger account; however, the correct share of the revaluation was rarely present. Many candidates did not incorporate the

equipment transferred to Javed. Other than this, the most common error was to account for the share of goodwill the wrong way round.

(g) The final task required candidates to advise the partners of the best way to finance the amount due to Javed, either a bank loan or the admission of a new partner. There were some very good responses to this task with many for and against points for both options.

Question 2

(a) The question task required calculation of the balance of the provision for depreciation for motor vehicles. Whilst a number of candidates calculated the correct balance, some candidates did not produce neat and logical workings and therefore did not get credit for workings where the final answer was incorrect.

(b) Preparation of the vehicles disposal account was not well answered. Many candidates had entries on the wrong side of the account and labels for the transactions were frequently incorrect. Candidates must be aware of the protocols for labelling transactions in a double entry account. In particular, many candidates incorrectly labelled the transfer to the income statement as profit or loss. Marks cannot be awarded for incorrect labels in a double entry account.

(c) Preparation of the provision for depreciation account was also not well answered, once again demonstrating a lack of understanding of double entry bookkeeping.

(d) Candidates were required to explain one reason why some businesses may use the revaluation method of depreciation. Most candidates were able to gain one mark by making a comment regarding the low value of the asset or referencing loose tools as an example. However, most did not gain the second mark by recognising the impracticality of calculating depreciation in these circumstances.

(e) A majority of candidates gained the available mark by stating how the annual depreciation charge is calculated using the revaluation method.

Question 3

(a) **Parts (a)(i)** to **(iii)** required the calculation of three accounting ratios. Whilst well-prepared candidates were able to gain all four of the available marks, some candidates did not correctly round their calculations and in the case of the current ratio did not correctly display the answer as a ratio (i.e.1.81:1, not just 1.81)

(b) **Parts (b)(i)** to **(iii)** required candidates to use the same three ratios calculated in **part (a)** and compare the company's performance with the previous two years' data provided. In all three cases, many candidates did not recognise that when comparing data it in not sufficient to state that the ratio decreased or went down. In order to gain marks, candidates must clearly state that a ratio worsened or improved.

(c) Few candidates were able to offer valid ways in which the company could improve its current ratio. Most candidates referred to reducing current liabilities for example without taking account of other factors, for example the corresponding decrease in current assets. The correct approach would be to affect either non-current assets or equity and few appreciated this point.

(d) Most candidates were able to offer three limitations of comparing the financial performance of different organisations.

Question 4

(a) The first task required candidates to calculate the break-even point and the majority of candidates were able to correctly calculate this.

(b) Similarly there were several excellent responses when asked to define the term 'margin of safety'.

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(c) Preparation of the marginal costing statement produced very mixed responses. Candidates must be aware of the standard format of a marginal costing statement with a separate line identifying contribution. When completed correctly, the statement was very well prepared with only the occasional incorrect entry of entering the sales commission after contribution. In some weaker responses candidates produced just a list of various calculations with no attempt to put them into any form of statement.

(d) This question task required candidates to explain two advantages of using a system of marginal costing. Responses were generally poor with many identifying the advantage of making short-term decisions but offering no development of the point made and little else of value.

(e) The question task required candidates to calculate the available machine hours for the month. Most candidates scored the two available marks.

(f) Calculation of the profit or loss for the month from two identified options produced very good responses from candidates who took a structured, well presented approach, though less well-prepared candidates produced only a mass of uncoordinated figures.

(g) The final task required candidates to advise which of the two options should be chosen. This task was relatively well answered by candidates, even those who struggled with **part (f)**. Most candidates made a clear decision with valid points based on their own calculations in **part (f)**.

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Paper 9706/32
AS/A Level Structured questions

General comments

Performance was reasonable with some very good scripts. **Question 1** was the best answered question on the paper and the cost and management accounting questions (**5** and **6**) were generally well answered.

Comments on specific questions

Question 1

(a) Most candidates provided a good explanation of how the purchased goodwill arose and many were awarded at least three of the four available marks.

(b) A high number of candidates correctly calculated the consideration payable. The most common error was the inclusion of the motor vehicle at net book value rather than the agreed value.

(c) Although there were a limited number of fully correct statements of financial position, there was a range of errors and omissions. Some candidates completely omitted the goodwill from the statement whilst many who did attempt the calculation made errors. Most candidates dealt with the current assets correctly but very few made the adjustment to the retained earnings balance.

(d) This was generally well answered with many candidates being awarded at least four marks as they identified the increase in revenue, cash flows and profit as well as the reduction in costs.

Question 2

(a) Few candidates were able to calculate the fund at 31 December 2019 with many merely adding the fees received in the five years and some dividing this amount by five.

(b) This was well answered with many candidates stating two correct differences with a significant number providing three.

(c) Although the question asked for reference to accounting concepts, some candidates did not state any. Explanations were generally unclear with some incorrectly stating that the amount should be treated in the income and expenditure account in the year of receipt.

(d) The membership subscription was calculated correctly by most but the life membership fees were treated correctly by very few candidates. Many candidates made errors with the expense adjustments, the depreciation was invariably incorrect and some candidates entered the special donation and/or the purchase of club equipment.

(e) (i) There were very few fully correct calculations. Many candidates calculated the net assets but omitted the bank balance and life membership fund.

(ii) This was answered to a higher standard with more correct calculations than **(e)(i)** often using own figures from **(d)** and **(e)(i)**.

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Question 3

(a) The statement of changes in equity was prepared to a reasonable standard with a limited number of fully correct statements. The profit for the year was omitted by some candidates despite the question asking for the profit for the year to be shown as the balancing figure. The treatment of the bonus issue was often incorrect and the label for the closing balances was omitted by some candidates.

(b) Although there were a limited number of correct cash flow statements, overall performance was not good. Depreciation was omitted by a significant number of candidates and there were very correct entries for this item. The changes in working capital and loss on disposal were usually treated correctly but very few candidates entered the given decrease of cash and cash equivalents in the statement.

(c) This was not well answered with many candidates merely stating that cash and cash equivalents would decrease as these payments were made. Consequently, there was little assessment of the impact of the cash outflows.

Question 4

(a) Candidates were more aware of the benefits to the preference shareholders than to the directors.

(b) The profit calculation was well answered with a significant number of correct answers. The most common error was the omission of the debenture interest.

(c) A very limited number of candidates calculated all of the ratios correctly. The debentures were often omitted from the denominator when calculating the return on capital employed whilst the preference share dividend was often omitted from the numerator when calculating the dividend cover. The dividend yield was the least well answered ratio with many candidates apparently being unaware of the formula and not using the given market value but the gearing ratio was correctly calculated by many candidates with no common errors.

(d) This was well answered with many candidates able to identify three actions and some able to sufficiently develop their answer.

(e) Nearly all candidates provided the required advice but many justified the advice by only considering the consequential fall in profit. A limited number did further develop their answer and some were awarded four marks with a very few receiving all of the five available marks.

Question 5

(a) This was very well answered with most candidates correctly defining variance analysis.

(b) This was less well answered with some candidates repeating the definition rather than explaining the benefits.

(c) Nearly all candidates entered the correct direct costs and added these costs to the fixed overhead but few could correctly derive the flexed fixed overhead costs.

(d) and (e) performance was mixed. Those candidates who correctly calculated the variances were invariably able to explain the reasons by calculating the sub-variances whilst those unable to calculate the variances were generally unable to provide acceptable explanations.

(f) There were few correct calculations with many incorrectly using the actual results to derive the rate.

(g) Very few candidates were able to calculate this variance and a high number did not attempt this question.

(h) This was very well answered with nearly all candidates providing the required advice and a high number justifying the advice by giving an appropriate reason both for and against.

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Question 6

(a) Nearly all candidates stated a benefit of preparing budgets and a significant number were able to state two appropriate benefits.

(b) The production budget was prepared to a high standard with many fully correct budgets. The most common error was the omission of the opening inventory for April.

(c) This was less well answered as the majority of candidates did not move the production units to the previous month and many did not convert the kilos to a monetary value.

(d) There were some fully correct calculations with some using their own figures to correctly calculate the monthly payments and nearly all candidates made a reasonable attempt at the monthly calculations. A common error was the omission in the April payment of the balance remaining from March.

(e) This was generally well answered with nearly all candidates giving the required advice and most justified their answer. Justification was to a variable standard resulting in most being awarded three marks but there were some excellent answers and these were awarded five marks.