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ACCOUNTING

Paper 9706/12
AS Level Multiple Choice

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

Key messages

Candidates should read the questions carefully, identify what is being asked and eliminate any data which is not relevant. Candidates need to review their understanding of the double entries in a suspense account to correct errors and the calculation of return on capital employed (ROCE).

General comments

There were only four questions where more than 70 per cent of candidates identified the correct option: **1**, **2**, **4** and **25**. There were three questions which merit some discussion. These will be reviewed in the next section.

Comments on specific questions

Question 6

Using suspense accounts always seems to cause problems. Looking at the data, to correct the bank account there would need to be a debit entry of $28 142 to cancel the error and a further debit entry of $28 412 to ensure the correct balance was entered. The undercast of $450 would also need a debit entry. Thus the suspense account would need to be **credited** with the total of these three items, $57 004, being the key **C**.

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Question 9

The key here was **C**. The value of year-end inventory would need to be adjusted if the selling price has fallen below cost under the lower of cost or net realisable value rule.

Question 21

The numerator for the calculation of ROCE is the profit from operations. In this case the change in retained earnings was $110 000 – $82 000 + $45 000 + $8000, giving a total of $81 000 as the numerator. Most candidates did not add back the debenture interest of $8000. Had they done so they would have identified the key **D**.

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Paper 9706/22
AS Level Structured Questions

Key messages

- Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings where the final answer is incorrect.
- In narrative 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 learn the acceptable formats for both financial statements and management accounting statements such as marginal costing statements.

General comments

Several candidates performed well on this paper.

An increasing number of candidates produced well-presented workings to support their financial statements and whilst there was evidence of some candidates lacking the necessary skills to produce good discursive answers, it was clear that well-prepared candidates answered these questions well.

Comments on specific questions

Question 1

The question concentrated on the incomplete records of a sole trader.

(a) Required candidates to state two reasons the owner of a business might maintain only minimal accounting records. There were several good responses to this task with less costly and less time-consuming being very common.

(b) Required candidates to state four benefits of maintaining full accounting records. Whilst this was not as well-answered as the previous task, virtually all candidates attempted the question. Several candidates suggested that it would reduce errors as a benefit, though this is clearly not so.

(c) Calculation of the total purchases for the year relied on good understanding of double entry and there were several totally correct answers. The most common error was a failure to correctly deal with the discounts received.

(d) Required candidates to prepare the income statement for the year. Overall, there were several good responses to the task, especially from those candidates who firstly produced good workings. Some candidates did not account for the discounts received and some did not include the profit on disposal of the furniture and fittings, despite correctly calculating the depreciation for the year. Calculation of revenue for the year proved challenging for some candidates having to make adjustments for outstanding bankings, cash payments and the increase in cash in hand over the year.

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(e) Candidates were asked whether the trader should form a partnership or apply for a bank loan to facilitate expansion. It was very pleasing to note the quality of many responses. Many candidates offered advantages and disadvantages for both options and clearly identified their advice.

Question 2

The second question focussed on the equity section of a limited company statement of financial position.

(a) Required calculation of the amount of the interim dividend paid. Whilst some candidates did not account for the fact that the nominal value of each share was $0.50 rather than $1.00, many candidates calculated the value correctly.

(b) Candidates were asked to identify two factors which directors should consider before deciding on the amount of dividend to pay shareholders. Many candidates stated that the profit for the year should be considered, but the more key factor to consider is the actual retained earnings.

(c) Preparation of the journal entry to record the bonus issue of shares demonstrated a degree of weakness in many candidates' double entry knowledge with a number of candidates reversing the entries.

(d) Candidates were required to calculate the closing balance on retained earnings after taking into account the interim dividend payment, the final dividend and the bonus issue of shares. The task was mostly well answered.

(e) Asked to state three reasons why a company may make a bonus issue of shares produced very mixed responses with only a few fully correct answers.

Question 3

The question concentrated on partnership accounts.

(a) Required candidates to prepare the partners' capital accounts following the retirement of one partner. Candidates with good double entry skills performed very well in this task. Most candidates were able to correctly account for goodwill on the retirement, though less were able to correctly account for the revaluation of the non-current assets.

(b) Following on from preparation of the capital accounts, candidates were asked to calculate the amount to be introduced by one of the remaining partners to meet the required criteria for the new partnership. Many candidates were clearly unable to know where to start with this task and made no attempt. Only a small minority were able to be awarded all four of the available marks.

(c) Asked to explain one reason for valuing goodwill on the retirement of a partner produced much better results with most recognising that it ensures that the retiring partner is rewarded for their efforts in building up the business.

(d) Required candidates to state two reasons why it is usual not to maintain a goodwill account in the books of a partnership. Only well-prepared candidates recognised that the valuation of goodwill is very subjective and that the value will often fluctuate.

Question 4

The final question focussed on both absorption costing and marginal costing together with two short answer questions on budgeting.

(a) The first task required candidates to complete a table to show the apportionment and reapportionment of overheads. Many good responses were only spoiled by sharing the production department supervisor's wages over both production and service departments.

(b) Calculation of the overhead absorption rates for each production department was well answered by many candidates though some did not follow the instruction for an answer to two decimal places.

(c) Asked to state two reasons why overheads may be under-absorbed was well answered by most candidates.

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(d) The task concentrated on marginal costing with the choice of two options to meet increased demand.

Part (i) and **part (ii)** both required calculation of the monthly profit of each option using marginal costing. Both parts were well answered by many candidates with the most common error in **part (i)** being the incorrect calculation of the overtime payment. In **part (ii)** the most common error was the incorrect calculation of the trade discount leading to the incorrect calculation of direct materials. Overall, however, there were several good responses.

(e) Following calculation of the profit from each option, candidates were required to advise which option to choose considering both financial and non-financial factors. Based on candidates own figures from the calculations, good advice was offered though development of points raised was occasionally lacking in depth.

(f) Asked to state two benefits of budgetary control produced several good answers with most candidates concentrating on the aspects of planning and control.

(g) Asked to state two limitations of budgetary control resulted in similar good responses mostly based on the demotivational aspect and the fact that it can discourage innovation.

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ACCOUNTING

Paper 9706/32
A Level Structured Questions

General comments

Performance on this paper was reasonable. The cost and management accounting questions (**5)**and **(6**) were answered well while **Question 2** was the least well answered.

Comments on specific questions

Question 1

(a) Most candidates demonstrated a knowledge of the term but relatively few gave a sufficiently developed response to be awarded both of the available marks.

(b) The manufacturing account was prepared to a high standard and there were a number of fully correct accounts. The most common error was the incorrect classification of the wages and salaries relating to the factory manager.

(c) The preparation of the income statement was less well answered. Some candidates did not show the gross profit for standard furniture and luxury furniture separately as required and a number of candidates omitted the factory profit from the statement.

(d) The assessment of the impact of manufacturing luxury furniture was not well answered with many candidates not providing any calculations to support their answer.

Question 2

(a) A high number of candidates showed their understanding of impairment with some being awarded all three marks.

(b) The application of the knowledge shown in **part (a)** was not satisfactory and many candidates were unable to determine the carrying value of the lorry.

(c) The non-current assets schedule was not well answered and there was a number of incorrect calculations. Presentation of the schedule was often poor.

(d) Although most candidates did provide the required advice, the justification was often unbalanced and few candidates received more than three marks.

Question 3

(a) Although there were a few very good explanations most candidates were unable to provide an appropriate explanation.

(b) There were a limited number of fully correct statements but a lot of candidates produced a statement with a number of errors. The most common errors were the incorrect calculation of the profit from operations and the incorrect treatment of the cash flows from investing activities and/or financing activities.

(c) Although many candidates did identify two reasons for the preparation of the statement and were awarded two marks few could sufficiently develop their answer to be awarded the two further available marks.

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(d) Nearly all candidates provided the required advice and there were a number of very good answers. Some candidates identified interest without discussing the quantitative aspect whilst some did not give a balanced response.

Question 4

(a) Most candidates identified two reasons but few developed these sufficiently to be awarded marks for explanation.

(b) There were a limited number of correct inventory calculations. Many candidates just used the basic cost and omitted the expenses to value the inventory. The returned goods were often valued without considering the repair costs. The actual number of units to be valued was invariably correct.

(c) The preparation of the consignment account was well answered with a number of fully correct accounts. The most common error was the inclusion of gross sales in the account.

(d) Although there were some fully correct answers overall responses were not good. Some candidates did not give a monetary value to show the effect and the reasons given were often vague.

Question 5

(a) This was very well answered with a high number of fully correct budgets. The most common error was the failure to adjust the fixed overhead.

(b) Most candidates gave a clear statement of the term.

(c) The calculation of the variances was very well answered with many deriving all five correctly. The most common error was the incorrect calculation of the fixed overhead total variance.

(d) (i) This was well answered with many candidates calculating the sub-variances correctly and no common errors.

(ii) There were a high number of very good explanations. There were no common errors.

(e) Most candidates provided the required advice. There were some very good answers which justified the decision but a number of responses did not consider the data for Y Limited and gave a purely generic response.

Question 6

(a) Few candidates were able to explain the term.

(b) (i) Nearly all candidates calculated the payback period correctly.

(ii) The accounting rate of return was calculated correctly by fewer candidates but there were still many correct answers. A common error was not deducting the cost of the machine when calculating the average profit.

(iii) Nearly all candidates calculated the net present value correctly.

(iv) A high number of candidates calculated the internal rate of return correctly. Errors were generally due to the incorrect application of the formula.

(c) A high number of candidates provided the required advice along with appropriate justification and were awarded three marks.

(d) Most candidates produced a valid explanation.

(e) Although there were a number of correct calculations some candidates did not apply their knowledge to address the scenario.

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