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ACCOUNTING

Paper 9706/12
AS Level Multiple Choice

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

Key messages

- With bank reconciliation questions, take care with how adjustments might affect either the bank statement or the cash book balances. Try to check your answer with a reconciliation.
- With control account questions involving adjustments and mis-postings, think carefully about what has been done and what pieces of information are relevant. Some may not be.
- Regarding types of cost, be clear what drives each and how they operate in practice.

General comments

Of the candidates who sat this examination, 50 per cent achieved a score of 16 or more correct answers. The mean score was 16 marks. **Questions 1**, **2**, **4** and **14** were straightforward with 95 per cent, 83 per cent, 80 per cent and 72 per cent of the candidates respectively identifying the key. Two questions caused the candidates some difficulty (**11**, **13**) and there were two further questions (**20**, **22**) where more candidates chose a distractor than the key. These are considered below.

Comments on specific questions

Question 11

38 per cent of the candidates opted for distractor **C** and 26 per cent for distractor **A** all believing that the error of $90 needed to be adjusted once the revised bank balance had been derived. Those opting for distractor **A** also applied the cheques and bankings incorrectly. The figure of $2120 was derived from $1570 + $1800 –

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$1250. The cash book before the reconciliation would be showing $2030 and would be corrected to $2120 for the error. The key **D** was selected by 25 per cent of candidates.

Question 13

37 per cent of candidates opted for distractor **A** having calculated $15 960 + $90 – $110 – $170 – $720 = $15 050. However, including the $110 of debit balances as a debit entry suggests that candidates mis-read 'carried down' for 'brought down'. These balances were carried down at the period end and so were a credit entry in the control account. In addition, it was not necessary to include the $720 as this would already be included in the control account via a cash book posting. The correct calculation of $15 960 + $90 + $110 – $170 = $15 990 produced key **C** chosen by 29 per cent of the candidates.

Question 20

Two thirds of the candidates opted for either distractor **C** or the key **B** with a roughly equal split between them. Although Jim holds some shares, the financial statements would provide him with dividend information only for the year being reported. They would not provide dividend forecasts for the next five years. Thus, for Jim, immediate job security is more important.

Question 22

Candidates showed some confusion between stepped and semi-variable costs. 47 per cent opted for distractor **D** but telephones are an example of a semi-variable cost containing a fixed and variable element. 41 per cent chose key **C** as factory rent is an example of a stepped cost where the cost remains fixed until a certain capacity is reached whereupon it needs to be increased i.e., stepped up.

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ACCOUNTING

Paper 9706/22
AS Level Fundamentals of Accounting

Key messages

It remains the case that the key messages from previous sittings of this examination are still applicable.

- Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings, but in their absence, candidates are unfairly penalising themselves.
- In written questions, candidates should make sure that they provide sufficient development to their answers. One or two-word answers will seldom suffice. A lack of developed answers was particularly noticeable in this examination.
- 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.
- It is becoming increasingly clear that some candidates are unfamiliar with the presentation requirement of double entry accounts. Dates and details are of paramount importance.

Comments on specific questions

Question 1

The question concentrated on the financial statements of a limited company.

(a) This required candidates to prepare the statement of profit or loss for the business after accounting for various adjustments. The majority of candidates made a very good attempt at this question with several well-prepared candidates producing a totally correct statement. Most candidates produced well documented workings and this in turn resulted in the improved performance.

(b) This question required candidates to prepare a statement of changes in equity taking into account a rights issue of shares, a revaluation of property and dividends paid. Whilst there were some excellent, fully correct statements, some candidates are still finding it difficult to work back to the opening balances of share capital and share premium when only provided with the closing balances. This is a common issue when preparing a statement of changes in equity.

(c) This required candidates to state two factors that directors should take into account when declaring a dividend. Most candidates correctly identified different aspects of profitability and liquidity as valid responses.

(d) Candidates were required to advise the directors which was the most suitable option to improve the company's performance. The options were to delay payments to suppliers or to switch to a new supplier offering trade discount for larger orders. As is often the case, whilst there were a few well-constructed responses, several candidates addressed one option, frequently with insufficient development to be awarded higher marks. Candidates' advice often lacked sufficient justification.

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Question 2

The second question focussed on the accounting requirements of providing for depreciation and on the disposal of non-current assets.

(a) This required preparation of the journal entry to record the depreciation charge for the year. A significant number of candidates did not attempt the question and those who did often produced poor responses demonstrating a lack of basic double entry knowledge.

(b) Following on from the journal entry, candidates were required to prepare the provision for depreciation account and again, responses were relatively weak. Labels in the account were frequently incorrect and a large number of candidates did not enter dates for the transactions. The result of this was many candidates did not gain any marks for the task.

(c) Preparation of the vehicle disposal account resulted in the same problems as previous double entry account and was very poorly answered with many responses not gaining any marks at all.

(d) Candidates were asked to state one reason why the reducing balance method of depreciation is more suitable for motor vehicles. Some candidates' responses were rather vague though many recognised that the earning power of motor vehicles diminishes over time.

(e) This question asked candidates to explain two accounting concepts that apply to depreciation. Most candidates correctly identified matching/accruals, prudence or consistency to earn two of the available four marks, though candidates are still not recognising the importance of development when asked to explain an issue.

Question 3

The question concentrated on incomplete records.

(a) Data was provided for inventory valuations, the gross profit margin and the rate of inventory turnover and candidates were required to calculate the revenue for the year. Whilst well-prepared candidates were able to gain all four available marks, many others failed to recall the formula for inventory turnover and were unable to apply this to correctly calculate the revenue. Candidates who were able to correctly calculate the cost of sales were generally awarded a maximum of two marks.

(b) Candidates were required to calculate the cash drawings for the year. The key to the question was to produce a cash account with the difference being cash drawings. Responses were very mixed. Those candidates who produced the double entry cash account performed much better than those who only produced a disorganised mass of figures.

(c) Candidates were required to state two benefits of keeping full accounting records using an accounting software package. The most popular responses were the ability to access more useful information and the ability to prepare financial statements in a timelier manner. The question was generally well answered.

(d) This required candidates to explain two possible reasons for not accepting the suggestion put to them. Once again, many candidates stated two valid disadvantages but frequently failed to propose sufficiently valid development to gain full marks.

Question 4

As is always the case, the final question concentrated on cost and management accounting. This particular question focussed on both marginal costing and absorption costing.

(a) Budgeted data and details of a customer's order were provided and candidates were required to prepare a statement to show the total selling price for the order. Results were very mixed with a number of candidates demonstrating a surprising lack of absorption costing knowledge. Treatment of overheads was particularly confused, but there were several fully correct responses too.

(b) This question asked candidates to calculate the over or under-absorption of overheads and was reasonably well answered. Some candidates confused over absorbed with under absorbed.

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(c) Candidates were required to calculate the monthly breakeven point in units from data provided. The task was generally well answered by the majority of candidates. The only weakness was a minority of candidates not being aware that the breakeven point should always be rounded up to the next whole number of units.

(d) Having been provided with two options to increase demand by changing the selling price, candidates were required to prepare marginal costing statements for each option. Both parts of this question were well attempted by most candidates although the importance of recognising the different treatment of fixed costs and variable costs was clearly not recognised by some candidates.

(e) The final question asked candidates to advise the directors which of the two options should be selected. Responses were quite variable, though stronger answers were able to score high marks by considering both options as required and offering good justification and development of their decision. A few candidates did not take account of the instruction to consider both financial and non-financial factors in their justification and thereby restricted their final mark. Overall, this question showed improvement in presentation over previous sittings of the examination.

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ACCOUNTING

Paper 9706/32
A level Financial Accounting

General comments

Overall performance was satisfactory with **Questions 1** and **3** being answered slightly better than **Question 2**.

Comments on specific questions

Question 1

(a) Although most candidates correctly posted the purchase consideration and current account balances, there were very few fully correct accounts. Common errors included the failure to close the account with many candidates bringing balances down and the inclusion of the $20 000 subscription.

(b) The statement of financial position was well prepared with a few fully correct statements. The most common errors were the omission or incorrect calculation of goodwill and the failure to account for $40 000 under cash and cash equivalents.

(c) There were a high number of correct calculations with no common errors.

(d) This was well answered with most candidates providing the required advice along with comments to justify their decision. Consequently, some candidates were awarded full marks. A few candidates made the error of stating that interest would be received.

Question 2

(a) A high number of candidates provided an acceptable explanation and were awarded both marks but some did not provide sufficient development to receive the second mark.

(b) There were a significant number of correct calculations. Common errors included the duplication of the opening retained earnings balance and the inclusion of interest.

(c) Most candidates demonstrated a reasonable knowledge of IAS7 and produced a reasonable cash flow statement. Performance was variable though and ranged from providing a list without any sections through to a fully correct statement. The most common errors were the omission or incorrect treatment of depreciation and the failure to make the correct adjustment for interest paid.

(d) Most candidates provided a reasonable analysis and submitted some valid points.

Question 3

(a) This was well answered with some fully correct manufacturing accounts. A few candidates placed the manufacturing expenses in the prime cost section and some made an error on the depreciation calculation.

(b) (i) There were a high number of correct calculations. Some candidates did not show the amount of profit and stopped their calculation at cost of sales.

(ii) There were some correct calculations. Again, some stopped at cost of sales and some did not deal correctly with the factory profit.

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(c) The profit calculation was made correctly by a high number of candidates with no common errors.

(d) Although some candidates did identify that there would be no effect on the profit for the year, very few candidates were able to fully develop their response.

(e) Nearly all candidates provided the required advice and then most were able to supply some valid comments which justified their advice.

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Paper 9706/42

A level Cost and Management Accounting

General comments

Performance was generally good with **Question 1** being the best answered question.

Comments on specific questions

Question 1

(a) Some candidates identified the monetary aspect and most of these were awarded two marks. Others defined investment appraisal or discussed financial factors and did not receive any credit.

(b) Many candidates provided one appropriate factor but few were able to give two factors.

(c) This was very well answered with many candidates calculating the net cash flows correctly for all four years. A few candidates omitted the fixed costs.

(d) This calculation was also very well answered with many fully correct responses. Nearly all candidates discounted their net cash flows at the two given rates correctly. There were some arithmetical errors. A few candidates applied the formula incorrectly and a few did not give their answer to two decimal places and/or omitted the percentage sign.

(e) Relatively few candidates identified the positive contribution that would be gained in year four but most identified a loss and provided a recommendation.

(f) Most candidates provided the required advice and many identified other techniques along with some appropriate comments to justify their decision.

Question 2

(a) The budgets were prepared to a high standard with many being fully correct. The most common error was the incorrect treatment of the fixed overheads.

(b) Performance was variable with some candidates able to calculate all the variances correctly while some were not able to calculate any. More candidates calculated the labour variances correctly than the material variances.

(c) Many candidates ignored the requirement to consider the sub-variances and a lack of knowledge and understanding was demonstrated by some responses.

(d) Most candidates provided the required advice and some supported their decision with relevant points. Some candidates provided a generic response to the preparation of budgets in general rather than considering the trade receivables and trade payables budgets.

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