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## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# ACCOUNTING

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## GCE Advanced Level and GCE Advanced Subsidiary Level

**Paper 9706/01**  
**Multiple Choice**

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

### General comments

5757 candidates took this paper (June 2004: 5182). The mean score was 15.14 (June 2004: 16.0). The standard deviation was 5.3 (June 2004: 5.1). There was an increase of 11% in the number of candidates. The decrease in the mean score indicates that the overall performance has declined a little, but this could be explained by the fact that the June 2004 paper contained more items that were considered too easy (see below). Two items appeared to cause general difficulty (see below). The standard deviation remained at the same level indicating that the papers for the two years were similar in their discrimination.

All the items were within the scope of the syllabus.

None of the items was shown to be too easy; three items were proved too easy in June 2004.

Two items (2 and 3) appeared to be too hard compared with one in June 2004.

It is noteworthy that the comments below are predominantly on the financial accounting areas of the syllabus. A few years ago, the management accounting topics would have invoked the most comments. This is an interesting swing in the teaching emphasis over the years. Financial accounting must not be allowed to suffer by the change in emphasis.

**Comments on specific items****Item 2**

Candidates were not sure of the nature and purposes of the four given options. 26% selected **A**, 31% selected **D**; only 34% recognised the need to create a provision (**C**).

**Item 3**

43% of candidates correctly selected **C**. Surprisingly, 31% selected **A** although the subscriptions were credited to Creditors account.

**Item 4**

Only 5% of candidates correctly selected **B**. 58% did not take note that the balance sheet at 31 March 2003 showed the *net debtors* (i.e. after deduction of the Doubtful Debts Provision) and that the debtors at that date were therefore \$18 000 ( $\$17\,100 \times 100/95$ ). 34% failed to take account of the provision brought forward from March 2003 and selected **D**.

**Item 15**

There was a large element of guessing here. The choices were: **A** 22%; **B** 21%; **C** 35% and **D** 20%. The net realisable value of Item 1 is \$6720 ( $\$7600 - \$880$ ) which is above cost. The net realisable value of Item 2 is \$2260 ( $\$2450 - \$190$ ) which is less than cost. The total stock value based on the lower of cost and net realisable value, item by item, is  $\$(5260 + 2260) = \$7520$  (**B**).

**Item 16**

44% of candidates correctly selected **B**; 45% did not recognise that the loan to the friend was an asset and treated it as a liability with the result that they selected **A**.

**Item 21**

Only 31% correctly selected **B**. 48% incorrectly credited the unrealised surplus on revaluation to Profit and Loss Account and failed to recognise that the annual depreciation charge on the fixed assets will increase.

**Item 28**

36% correctly selected **C**. (The increase of \$150 000 in the profit as a percentage of the increase in the sales,  $\$250\,000 = 60\%$ ). 26% selected **A** and 23% selected **B**. There might have been an element of guessing here.

**Paper 9706/02**  
**Structured Questions**

**General comments**

There were varied achievements, but generally a testing paper which allowed the well-versed candidate the opportunity to score high marks. **Question 2** proved the easiest whilst parts **(b)** and **(c)** of **Question 3** proved most difficult.

**Comments on specific questions**

**Question 1**

- (a)** Most scored at least 5 of the 8 marks available, but many lost the last 3 marks by including bank repayments and/or interest on capital, or by apportioning the profits in the ratio of the partners' investments – this should not be the case where there is no partnership agreement.
- (b)** Frequent errors included:
- calculating interest on capital for Ringo only
  - including manager's salary in the calculations
  - awarding Ringo's profit to Georgina and hers to him
  - not adding together the interest on capital and the share of profit to total the amount gained.
- (c)** Almost all candidates picked up marks here, provided they did not merely reiterate the results found in **(a)** and **(b)**.

**Question 2**

- (a)** Candidates have considerably improved their skills in this particular area over the past two or three years and many achieved high marks. However, some errors did occur more often than was expected:
- depreciation was often miscalculated, usually for one year only
  - the net book value of the equipment was shown correctly, but in the cost column the residual value had been deducted and depreciation calculated on that figure
  - \$2500 was deducted rather than added to the closing stock figure
  - bank shown as an overdraft
  - including proposed dividends in reserves
  - ordinary shares figure shown including Share Premium
  - number of ordinary shares not indicated.
- (b)** Ratios must be shown in the format of (figure):1, such as 3:1. It is not acceptable to show it in reverse, e.g. 1:3 as this is meaningless when put to use for comparison with other figures. Nor is the use of 'times' acceptable in current or liquid ratios.
- (c)** Excellent marks attained here by almost all candidates.

**Question 3**

- (a)** The total column was frequently omitted. A minority calculated neither fixed nor variable costs, nor contribution, but deducted total costs from total sales to find correct profit. This was not acceptable, as a marginal costing format had been requested.
- (b)** Very few candidates completed this correctly though marks were often obtained by calculating four quantity totals of which at least one was different from part **(a)**.
- (c)** Marks were gained here by calculating totals for platinum, gold and silver but few candidates completed this section correctly, thus differentiating between the good and the excellent candidates.

<b>Paper 9706/03</b> <b>Multiple Choice</b>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>D</b>	16	<b>C</b>
2	<b>B</b>	17	<b>D</b>
3	<b>D</b>	18	<b>A</b>
4	<b>D</b>	19	<b>A</b>
5	<b>C</b>	20	<b>B</b>
6	<b>C</b>	21	<b>A</b>
7	<b>B</b>	22	<b>B</b>
8	<b>C</b>	23	<b>D</b>
9	<b>D</b>	24	<b>B</b>
10	<b>B</b>	25	<b>D</b>
11	<b>A</b>	26	<b>C</b>
12	<b>C</b>	27	<b>D</b>
13	<b>A</b>	28	<b>A</b>
14	<b>C</b>	29	<b>A</b>
15	<b>C</b>	30	<b>B</b>

**General comments**

4229 candidates took this paper (June 2004: 4050). The mean score was 18.5 (June 2004: 15.6). The standard deviation was 6.1 (June 2004: 5.4). The increase in candidates was 4.4%. The increase of 3 in the mean score showed a considerable improvement in the overall performance and the increase in the standard deviation showed a small increase in discrimination.

All the items were within the syllabus.

Two items (**2** and **24**) proved to be too difficult. (June 2004: 2.)

Two items (**4** and **15**) proved to be too easy. At 89% and 90% respectively they exceeded the design parameter of 85%.

**Comments on specific questions****Item 1**

52% of candidates correctly selected option **D**. This suggests that nearly half the candidates are unable to reconcile operating profit to cash flow from operating activities. Cash flow questions in Paper 4 usually allot a significant number of marks to this reconciliation and it is important that this part of the topic is completely mastered.

**Item 2**

The accounting standard for cash flow statements defines cash as cash in hand and deposits repayable on demand (immediately or at 24 hours notice). Only 11% of candidates correctly selected **B**; 74% selected **A**.

**Item 8**

The occasions when the premium paid on the redemption of shares continues to be little understood by many candidates in spite of the fact that it is an important topic regularly tested in Papers 3 and 4. Less than half (48%) of candidates selected the correct option, **C**. 26% surprisingly selected **A**.

**Item 11**

51% of candidates correctly selected option **A**. However, it is useful to note that 22% failed to note that the nominal value of the shares was \$0.50 and not \$1. Items must be read carefully if important detail is not to be missed. 18% fell into the trap of crediting the whole of the issue price of the shares to Share Capital account.

**Item 23**

The cost of materials used in process 2 equals the total cost of production transferred from process 1, \$12 000, plus the additional materials added in process 2 (\$2000), making \$14 000 (**D**). The commonest error was the omission of the variable and fixed costs in process 1.

**Item 24**

The contribution per unit is \$7 (\$26 – \$19). 600 units will produce a total contribution of \$4200. A further contribution of \$800 (\$5000 – \$4200) will be required to break even. This is equivalent to \$4 from each of the additional 200 units. The minimum selling price for each additional unit should be  $$(19 + 4) = \$23$ . 33% of candidates correctly chose **B**. The remaining 67% were distributed evenly over the distracters, suggesting that there was considerable guessing at the answer.

**Paper 9706/04**

**Problem Solving (Extension)**

**General comments**

It is pleasing to note that the standard of candidates' work continues to improve. There were many good scripts, with candidates showing a good ability in accounting problem solving. Well prepared candidates were able to score high marks. There were few extremely poor scripts. In many cases the presentation of answers requires candidates to use set layouts. If these layouts are not adhered to then valuable marks may be lost.

Some scripts are also very untidy and seem to lack any logical structure – this means that some candidates forfeit marks by transferring inappropriate data to the final answer, it also results in appropriate data being omitted from the answer. It could also mean that in some cases Examiners are unable to follow parts of a candidate's answer through to its conclusion. This may cause the candidate to drop marks – and thus may cost a candidate a better grade.

Workings are being shown much more often than in the past and this results in many more part marks being awarded. Many candidates are using "T" accounts as workings and this practice is to be commended.

The answers to **Question 2** scored the highest marks for most candidates. While **Question 1** proved to be the most technically demanding question.

**Comments on specific questions****Question 1**

- (a) Although most candidates were able to score some marks there were very few scripts scoring maximum marks. Only the better candidates started with the retained profit for the year and worked back to arrive at the operating profit of \$227 000. Despite this, most candidates were able to calculate the interest on debentures and the preference dividend accurately. The taxation charge and ordinary dividend proved to be more of a challenge. Most candidates were able to score a couple of marks for the taxation charge but only the better candidates arrived at the correct amount of \$28 000. Some candidates used a calculation rather than using a "T" account and this led to problems of not only arriving at the correct amount but incorrectly treating the amount in the profit and loss account. The calculation of the ordinary dividend also proved to be testing. Many candidates were able to score 3 marks by multiplying the issued share capital figure by the yield and obtaining an answer of \$62 500.

- (b) The extracts from the cash flow statement were, in the main, well done. Most candidates were able to gain the mark allocated to the depreciation figure. The majority of candidates were also able to calculate the profit and the loss on disposals. Both calculations were in the main deducted and added, respectively, correctly. Less good candidates found the information contained in the note to the accounts rather overwhelming and included the disposal amounts or the aggregate depreciation charges in their answer. Although the vast majority of candidates were able to identify the elements required in the capital expenditure extract, many candidates did not indicate that the \$560 000 was a negative amount. It was important that this figure was shown in brackets.
- (c) The statement of recognised gains and losses proved to be the hardest part of the whole paper. Only a few correct answers to this part of the question were seen. The vast majority of candidates scored zero marks. Fortunately, from a candidate's viewpoint this part of the question only carried 2 marks.
- (d) The balance sheet was generally well done and most candidates scored more than half marks. Surprisingly, many answers still showed entries for the 6% debentures and the 10% redeemable preference shares despite them having been redeemed. Many candidates lost part marks because they failed to show the workings necessary to arrive at the 'adjusted' balance sheet entries. This was particularly true for the net current asset figure and the profit and loss figure. All candidates must have gone through some process in order to arrive at these figures but an Examiner cannot award marks if the candidate does not show the process undertaken.
- (e) There was a variety of entries in the financing section of the cash flow statement. The major source of errors was a failure to include the premiums as part of the cash flows. Once again many candidates failed to indicate clearly that the two redemptions were cash outflows by the use of brackets.
- (f) This was well done. Most candidates seemed to be aware that the fixed cost capital had been redeemed and so there would be fewer charges on profits and therefore more profits are attributable to the ordinary shareholders.

## Question 2

- (a) This was generally well done. A significant number of candidates scored maximum marks. Layouts were good, in general a tabular presentation was used, however, a significant number of candidates prepared separate monthly cash budgets. Whilst this is an acceptable format and incurred no penalty, it was felt that perhaps some candidates penalised themselves from a time point of view as this layout does require repeat narratives to be written out.

The main areas which proved to be problematic were:

- a failure to deduct the cash discount from the amounts due to be received within one month after sale
- some candidates included the discount as cash received – this was penalised as the discount should not be treated separately and is certainly not an income
- payments to creditors caused problems to a good number of candidates
- some candidates did not include the opening balance of \$12 000 and many more did not carry forward each month's balance to arrive at a closing balance for the four months.

Alternative monthly answers for the staff bonus were allowed. It was felt that note (vii) of the information could be interpreted in two ways. As a result answers of \$4400, \$3312, \$3496 and \$3588 respectively were also allowed as correct answers.

A number of candidates increased the wages and other expenses by 5% each month from 1 September, this resulted in an incorrect entry in October.

- (b) This part of the question was less well done. Only a handful of candidates calculated the closing stock and debtors' figures correctly. Most candidates scored a couple of marks by including their own figure for the closing bank balance and staff bonus. The trade creditors at 31 October 2005 also proved to be a difficult calculation for most candidates. A significant number of candidates included the bank overdraft as a negative current asset, this is an unacceptable answer.

- (c) Most candidates scored maximum marks for identifying three benefits of preparing budgets.
- (d) This part of the question was rather less well done. Many candidates merely repeated the benefits already outlined in part (c). Only the better candidates gained extra marks, usually by stating the advantages of calculating variances and then being able to identify areas of good practice and eradicate areas where adverse variances occur. Some candidates indicated that standard costing figures are more likely to be regularly updated and so would help to make budgets prepared from them more accurate.

### Question 3

- (a) In the main this part was quite well done, although many answers lacked a structured approach. Most candidates were able to calculate the contribution made by each product. Although, surprisingly, a significant number of candidates only used either direct materials costs and/or direct labour costs as a deduction to arrive at contribution. Many candidates did not read the question carefully and used the kilos and hours per unit as the costs for materials and labour. A good number of candidates were unable to calculate the contribution per kilo and many divided the total contribution by \$3 others used 38 000 kilos.
- (b) It was pleasing to see a significant number of correct answers. Many candidates used total contribution to arrive at their (own figure) rank order of production. This approach was rewarded appropriately and so many candidates scored full marks and the vast majority of candidates were able to gain more than half of the available marks.
- (c) Variances still cause a problem for a large number of candidates. Some candidates clearly do not understand or have failed to learn an appropriate formula. Other candidates do not secure the marks they deserve by failing to use the \$ sign and more usually by failing to state whether the answer they arrive at is a favourable or an adverse variance.
- (d) The candidates who attempted this part of **Question 3** did produce good answers but there is still a significant number of candidates who seem to be incapable of coming to terms with any kind of reconciliation statement.