



UNIVERSITY *of* CAMBRIDGE  
International Examinations

Cambridge  
**IGCSE**

# **Example Candidate Responses (Standards Booklet)**

**Cambridge IGCSE**  
**Accounting**  
**0452**



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**Accounting**

**0452**

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# Cambridge IGCSE

## Accounting

### Syllabus code 0452

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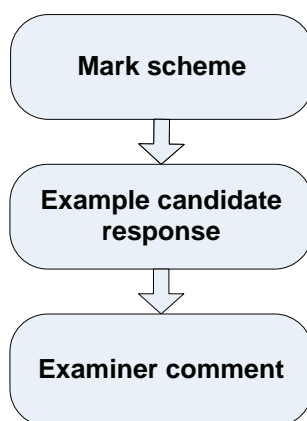
## INTRODUCTION

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The main aim of this booklet is to exemplify standards for those teaching Cambridge IGCSE Accounting (0452), and to show how different levels of candidates' performance relate to the subject's curriculum and assessment objectives.

In this booklet a range of candidate responses has been chosen as far as possible to exemplify grades A, C and E. Each response/script is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For ease of reference the following format for each paper of the subject has been adopted:



The mark scheme used by examiners is followed by a grade A, grade C and grade E example candidate response, each with an examiner comment on performance. Comments are given to indicate where and why marks were awarded, and how additional marks could have been obtained. In this way, it is possible to understand what candidates have done to gain their marks and what they still have to do to improve their grades.

Past papers, Principal Examiner Reports for Teachers and other teacher support materials are available on our Teacher Support website at <http://teachers.cie.org.uk>.

## ASSESSMENT AT A GLANCE

There are two compulsory papers, Paper 1 and Paper 2. Both papers contain questions based on the whole syllabus. Candidates receive grades from A\* to G.

Candidates take:	
<b>Paper 1</b>	1¾ hours
This is a structured question paper with 8–12 multiple choice items and short-answer questions. There are usually between 4 and 5 questions based on topics from the whole of the syllabus. All questions are compulsory, and candidates answer on the question paper. There are 120 marks for this paper.	
50% of total marks	

and	
<b>Paper 2</b>	1¾ hours
This is a structured question paper. There are usually 4 to 6 questions based on topics from the whole of the syllabus. All questions are compulsory, and candidates answer on the question paper. There are 120 marks for this paper.	
50% of total marks	

Teachers are reminded that a full syllabus is available on [www.cie.org.uk](http://www.cie.org.uk).

# PAPER 1

## Question 2

### Mark scheme

- 2 (a)** [Sales] invoice ) but only 1 mark for "invoice"  
 [Purchase] invoice )  
 Credit note  
 Debit note  
 Cheque, receipt  
 Petty cash voucher

*NOT: statement, bank statement, cash book, journals, day books*  
 any two, 1 mark each  
 [2]

**(b)**

	Income	Expense
Bad debt recovered	✓ (1)	
Interest charged to customers on overdue accounts	✓ (1)	
Discount allowed		✓ (1)

[3]

**(c)**

Debit	Credit
✓ (1)	

[1]

- (d)** Reliability / reliable

[1]

- (e)** Commission

[1]

- (f)** A shareholder's liability for a company's debts is limited to the amount they have paid for their shares.

[2]

*Accept: shareholder's assets are not available to pay company debts/losses*

- (g)** 50 dresses bought, 30 sold, 20 remaining  
 Cost \$13.00, carriage inwards \$1.00 each, total \$14.00  
 Net realisable value \$13.50

Value in balance sheet 20 **(1)** × \$13.50 **(1)** = \$270 **(1)**

[3]

*Correct figures only, not OF total*

- (h) (i)** \$150.00 – \$80.50 = \$69.50 **(2)**

(ii) \$80.50 (2)

[4]

(i) Rate of stock turnover = Cost of goods sold / Average stock  
 =  $45\,000$  (1) /  $(6000 + 9000) / 2$  (1) (1)  
 = 6 times (1)OF [4]

Or: = Average stock / Cost of goods sold  $\times$  365  
 =  $(6000 + 9000) / 2$  (1) /  $45\,000$  (1)  $\times$  365  
 = 60.83 days (1)OF [4]  
 Accept 61 or 60 days

*Note: calculation mark may be awarded if "times" or "days" not stated but not if any other description shown e.g. %*

[Total: 21]



Example candidate response – grade A

- 2 (a) Name two business documents used to make entries in the accounting records of a business.

(i) Invoice .....  
 (ii) ~~Debit note~~ Debit note ..... [2]

- (b) In the table below, place a tick (✓) under the correct heading to show whether the item is income or expense.

	Income	Expense
Bad debt recovered	✓	
Interest charged to customers on overdue accounts	✓	<del>✓</del>
Discount allowed		✓

[3]

- (c) The total of the purchases journal is posted to the purchases account in the ledger. In the table below, place a tick (✓) to show whether this entry is a debit or a credit.

Debit	Credit
✓	

[1]

- (d) Which accounting policy requires information to represent actual events and to be free from error and bias?

prudence concept ..... [1]

- (e) A cheque from Hipham was credited to Bipham's account in the sales ledger. What type of error has been made?

Comission error ..... [1]

- (f) Explain what is meant by a shareholder of a company having limited liability.

A shareholder is a person who owes a share in a ~~company~~ limited company he can be an ordinary share holder or a prepheral share holder ..... [2]

(g) Sasha has a shop which sells fashion clothing.

She bought 50 dresses for \$13.00 each and paid total carriage inwards of \$50.00. She sold 30 dresses for \$20.00 each. The price at which she can sell the dresses has now fallen to \$13.50 each.

At what amount will Sasha value the remaining dresses in her balance sheet?

Remaining dresses =  $50 - 30 = 20$  dresses  
 Amount will be valued in balance sheet =  
 $13.50 \times 20 = \$270.00$  [3]

(h) Tamara keeps her petty cash on the imprest system with an imprest of \$150. She paid expenses in the month of October of \$80.50.

(i) What was the amount of petty cash remaining at 31 October?

$150 - 80.50 = \$69.50$

(ii) How much cash was transferred to restore the imprest at 1 November?

$\$80.50$  [4]

(i) Kishu's business had inventory (stock) on 1 July 2009 of \$6000 and on 30 June 2010 of \$9000. His cost of goods sold for the year ended 30 June 2010 was \$45 000.

(Closing stock)

Calculate his rate of inventory (stock) turnover. Show all your workings.

$$\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{45,000}{\frac{6,000 + 9,000}{2}} = \frac{45,000}{7,500} = 6 \text{ times}$$
 [4] (Total: 21)

Examiner comment

Total mark, 18/21: An excellent answer, easily a grade A, demonstrating a high level of knowledge and application, with only the two most difficult parts of the question answered incorrectly.

Part (a), mark 2/2: Two correct business documents were given.

Part (b), mark 3/3: The correct boxes were ticked.

Part (c), mark 1/1: The correct box was ticked.

Part (d), mark 0/1: The answer was incorrect: the correct answer is "reliability".

Part (e), mark 1/1: The answer was correct.

Part (f), mark 0/2: The answer described a shareholder but did not explain the meaning of limited liability and earned no marks.

Part (g), mark 3/3: The answer gave the correct value.

Part (h), mark 4/4: Both parts were answered correctly.

Part (i), mark 4/4: The answer gave a correct calculation and earned the marks.

Example candidate response – grade C

2 (a) Name two business documents used to make entries in the accounting records of a business.

- (i) Statement..... [2]
- (ii) Credit note..... [2]

(b) In the table below, place a tick (✓) under the correct heading to show whether the item is income or expense.

	Income	Expense
Bad debt recovered	✓	
Interest charged to customers on overdue accounts	✓	
Discount allowed		✓

[3]

(c) The total of the purchases journal is posted to the purchases account in the ledger. In the table below, place a tick (✓) to show whether this entry is a debit or a credit.

Debit	Credit
✓	

[1]

(d) Which accounting policy requires information to represent actual events and to be free from error and bias?

Business entity concept..... [1]

(e) A cheque from Hipham was credited to Bipham's account in the sales ledger. What type of error has been made?

Error of principle..... [1]

(f) Explain what is meant by a shareholder of a company having limited liability.

When the shareholder is liable that means the company or the other shareholders are not liable and the creditors are not allowed to exceed the assets of the business [2]



- (g) Sasha has a shop which sells fashion clothing.

She bought 50 dresses for \$13.00 each and paid total carriage inwards of \$50.00.  
She sold 30 dresses for \$20.00 each.  
The price at which she can sell the dresses has now fallen to \$13.50 each.

At what amount will Sasha value the remaining dresses in her balance sheet?

$$50 \times 13 = \$650 \quad \$600 \quad \text{remaining} = 13.50$$

$$50 \times 13 = \$650$$

$$30 \times 20 = \$600$$

She will value them at \$13.50 [3]

- (h) Tamara keeps her petty cash on the imprest system with an imprest of \$150. She paid expenses in the month of October of \$80.50.

- (i) What was the amount of petty cash remaining at 31 October?

$$\$150.00 - \$80.50 = \$69.50$$

- (ii) How much cash was transferred to restore the imprest at 1 November?

$$\$150 - \$69.50 = \$80.50$$
 [4]

- (i) Kishu's business had inventory (stock) on 1 July 2009 of \$6000 and on 30 June 2010 of \$9000. His cost of goods sold for the year ended 30 June 2010 was \$45 000.

Calculate his rate of inventory (stock) turnover. Show all your workings.

$$\text{Rate of inventory (stock) turnover} = \frac{\text{Average stock}}{\text{Cost of goods sold}} = \frac{(6000 + 9000) \div 2}{45000} = \frac{7500}{45000} = 0.167 \text{ times} = 0.17 \text{ times}$$
 [4]

### Examiner comment

Total mark, 13/21:	A good answer showing sound knowledge and good application skills.
Part (a), mark 1/2:	One correct and one incorrect answer were given.
Part (b), mark 3/3:	The correct boxes were ticked.
Part (c), mark 1/1:	The correct box was ticked.
Part (d), mark 0/1:	The answer was incorrect: the correct answer is "reliability".
Part (e), mark 0/1:	The answer was incorrect.
Part (f), mark 0/2:	The answer did not explain the meaning of limited liability and earned no marks.
Part (g), mark 1/3:	The answer gave the correct net realisable value of a dress but did not calculate the total value of the remaining dresses.
Part (h), mark 4/4:	Both parts were answered correctly.
Part (i), mark 3/4:	The answer used a formula which was only partly correct, gave a partly correct calculation and earned some marks.

Example candidate response – grade E

2 (a) Name two business documents used to make entries in the accounting records of a business.

- (i) Partnership..... [2]  
 (ii) .....

(b) In the table below, place a tick (✓) under the correct heading to show whether the item is income or expense.

	Income	Expense
Bad debt recovered	✓	
Interest charged to customers on overdue accounts	✓	
Discount allowed		✓

[3]

(c) The total of the purchases journal is posted to the purchases account in the ledger. In the table below, place a tick (✓) to show whether this entry is a debit or a credit.

Debit	Credit
	✓

[1]

(d) Which accounting policy requires information to represent actual events and to be free from error and bias?

..... [1]

(e) A cheque from Hipham was credited to Bipham's account in the sales ledger. What type of error has been made?

Error of Commission..... [1]

(f) Explain what is meant by a shareholder of a company having limited liability.

A shareholder is a business person who has ~~interest~~ invested in a company...... [2]  
 .....

- (g) Sasha has a shop which sells fashion clothing.

She bought 50 dresses for \$13.00 each and paid total carriage inwards of \$50.00.  
She sold 30 dresses for \$20.00 each.  
The price at which she can sell the dresses has now fallen to \$13.50 each.

At what amount will Sasha value the remaining dresses in her balance sheet?

*She can only sell her dresses for \$18.50*

.....

.....

..... [3]

- (h) Tamara keeps her petty cash on the imprest system with an imprest of \$150. She paid expenses in the month of October of \$80.50.

- (i) What was the amount of petty cash remaining at 31 October?

*\$69.50*

.....

- (ii) How much cash was transferred to restore the imprest at 1 November?

*\$80.50*

..... [4]

- (i) Kishu's business had inventory (stock) on 1 July 2009 of \$6000 and on 30 June 2010 of \$9000. His cost of goods sold for the year ended 30 June 2010 was \$45 000.

Calculate his rate of inventory (stock) turnover. Show all your workings.

$\frac{15000}{45000} \times 100 = 33.3\%$

..... [4]

### Examiner comment

Total mark, 9/21:	A reasonable answer showing some knowledge and moderate application skills.
Part (a), mark 0/2:	The answer given was not a business document and was incorrect.
Part (b), mark 3/3:	The correct boxes were ticked.
Part (c), mark 0/1:	The credit box was incorrectly ticked.
Part (d), mark NR:	No attempt was made at this part.
Part (e), mark 1/1:	The answer was correct.
Part (f), mark 0/2:	The answer described a shareholder but did not explain the meaning of limited liability and earned no marks.
Part (g), mark 0/3:	The answer gave an incorrect net realisable value of a dress and did not calculate the total value of the remaining dresses.
Part (h), mark 4/4:	Both parts were answered correctly.
Part (i), mark 1/4:	The answer used an incomplete formula but earned a mark for entering one correct component in the formula.

## Question 3

## Mark scheme

- 3 (a)** Items on bank statement not shown in cash book  
(accept individual items, bank charges, bank interest, etc.)  
Items in cash book not on bank statement  
(accept individual items, cheques not yet presented, etc.)  
Errors in cash book or made by bank (accept only one type of error)  
Dishonoured cheques  
any two, 2 marks each

[4]

- (b)** Ottoman – Cash Book (bank columns)

Date	Detail	Dr \$	Date	Detail	Cr \$
Sept 30	Balance b/d	850.00 <b>(1)</b>	Sept 30	Bank charges	60.00 <b>(1)</b>
30	Rent	800.00 <b>(2)</b>	30	Balance c/d	<u>1890.00</u> <b>(2)</b>
13	[Cash] sales (not to correct error)	<u>300.00</u> <b>(2)</b> <u>1950.00</u> ....		(no aliens, may award if account reversed)	<u>1950.00</u> .....

(Marks are for detail and amount, not date) Balance mark only for reversed cash book.

[8]

- (c)** Ottoman  
Bank Reconciliation Statement at 30 September 2010

Either:

	\$
Balance on updated cash book [at 30 September 2010] (accept updated balance, balance b/d if agrees with <b>(b)</b> )	1890.00 <b>(2)OF</b> (must agree with (b) above)
Add: cheques issued not yet paid (unpresented cheques)	250.00 <b>(2)</b>
Less: cheque paid in not yet credited by bank (accept reasonable description)	(480.00) <b>(2)</b>
(marks are for description, amount and correct + or -)	
Balance on bank statement [at 30 September 2010]	1660.00 <b>(1)</b> (must be correct figure)

[7]

Or:

	\$
Balance on bank statement [at 30 September 2010]	1660.00 <b>(1)</b> <i>(must be correct figure)</i>
Less: cheques issued not yet paid (unpresented cheques)	(250.00) <b>(2)</b>
Add: cheque paid in [not yet credited by bank] <i>(accept reasonable description)</i>  <i>(marks are for description, amount and correct + or -)</i>	480.00 <b>(2)</b>
Balance on updated cash book [at 30 September 2010] <i>(accept updated balance, balance b/d if agrees with (b))</i>	1890.00 <b>(2)OF</b> <i>(must agree with (b) above)</i>

[7]

**(d) (i)** Current assets (2)  
accept current liabilities if overdrawn on OF

**(ii)** \$1890 (2)OF from (b) above, not (c) if different

[4]

[Total: 23]



## Example candidate response – grade A

- 3 Ottoman compared his cash book with the statement from his bank at 30 September 2010 and found the balance shown on the bank statement did not agree with the balance in the bank column of his cash book.

## REQUIRED

- (a) Give two reasons why the balance shown in a cash book might not agree with the balance shown on a bank statement at the same date.

- (i) The bank may have made transactions that the business was not yet aware of such as bank charges.
- (ii) The business may have made transactions that the bank was not yet aware of such as unpresented cheques. [4]

On 30 September 2010 the balance on Ottoman's cash book (bank column) was \$850 Dr. The balance shown on his bank statement was \$1660.

The cash book was checked against the bank statement and the following differences were found.

- 1 Cheques totalling \$250 issued to creditors had not been presented for payment.
- 2 Rent received of \$800 paid directly into the bank on 30 September did not appear in the cash book.
- 3 Bank charges of \$60 were shown on the bank statement but had not been entered in the cash book.
- 4 Cash sales recorded as \$1200 were shown on the bank statement correctly as \$1500.
- 5 A cheque received from Hans for \$480 and deposited at the bank on 28 September has been entered in the cash book but has not yet been shown on the bank statement.

- (b) Make any additional entries which are required in Ottoman's cash book. Balance the cash book at 30 September 2010 and find the adjusted balance carried down.

Ottoman - Cash Book (bank columns)

Date	Detail	Dr \$	Date	Detail	Cr \$
30 Sept. x10	Balance b/d	850	<del>30 Sept. x10</del> 1 Oct	<del>Bank</del>	<del>250</del>
30 Sept. x10	Sales	300	30 Sept. x10	Rent received	800
			30 Sept. x10	Bank Charges	60
			30 Sept. x10	Bal. c/d	290
		1150			1150
1 Oct. x07	Bal. b/d.	290			

[8]

- (c) Prepare a bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 30 September 2010.

Ottoman  
Bank Reconciliation Statement at 30 September 2010

Balance as per cash book	290
Add unpresented cheques	250
	540
Less uncredited cheques	480
Balance as per bank statement	60

[7]

- (d) (i) Name the heading under which bank will be shown in Ottoman's balance sheet on 30 September 2010.

Current assets

- (ii) State the amount which will be entered for bank in Ottoman's balance sheet on 30 September 2010.

\$290

[4]

[Total: 23]

Examiner comment

Total mark, 20/23:

An excellent answer at grade A showing a high level of knowledge and application with just one error in the updated cash book and a consequential mistake in the bank reconciliation.

- Part (a), mark 4/4: Two acceptable reasons were given.  
 Part (b), mark 6/8: Most entries were correct but two marks were lost for entering rent received on the wrong side of the cash book. Own figure marks were earned for the arithmetically correct balance c/d.  
 Part (c), mark 6/7: One mark was lost as the answer did not reconcile to the balance given in the question.  
 Part (d), mark 4/4: The correct answer to (i) was given and own figure marks were earned in (ii) for using the calculated balance from (b).

Example candidate response – grade C

- 3 Ottoman compared his cash book with the statement from his bank at 30 September 2010 and found the balance shown on the bank statement did not agree with the balance in the bank column of his cash book.

REQUIRED

- (a) Give two reasons why the balance shown in a cash book might not agree with the balance shown on a bank statement at the same date.

(i) *.....due to un-presented checks.....*  
 .....  
 (ii) *.....due to Bank lodgements.....*  
 ..... [4]

On 30 September 2010 the balance on Ottoman’s cash book (bank column) was \$850 Dr. The balance shown on his bank statement was \$1660.

The cash book was checked against the bank statement and the following differences were found.

- 1 Cheques totalling \$250 issued to creditors had not been presented for payment.
- 2 Rent received of \$800 paid directly into the bank on 30 September did not appear in the cash book.
- 3 Bank charges of \$60 were shown on the bank statement but had not been entered in the cash book.
- 4 Cash sales recorded as \$1200 were shown on the bank statement correctly as \$1500.
- 5 A cheque received from Hans for \$480 and deposited at the bank on 28 September has been entered in the cash book but has not yet been shown on the bank statement.



- (b) Make any additional entries which are required in Ottoman's cash book. Balance the cash book at 30 September 2010 and find the adjusted balance carried down.

Ottoman - Cash Book (bank columns)

Date	Detail	Dr \$	Date	Detail	Cr \$
2010 30 sep.	balance b/d	1660	2010 30 sep.	unpresented che	250
2010 30 sep.	Rent Received	800	2010 30 sep.	Bank Charges	60
2010 30 sep.	Sales (cash)	1500	2010 30 sep.	balance c/d	4130
2010 30 sep.	Cheque received	480			
		4440			4440
2010 1 oct.	balance b/d	4130			

[8]

- (c) Prepare a bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 30 September 2010.

Ottoman  
Bank Reconciliation Statement at 30 September 2010

Balance as per Cash Book	4130	
+ unpresented cheque	250	
- Bank Charges	60	310
- Cheque not yet received	480	
+ Rent received	800	
difference in cash sales	300	(1580)
		<u>2860</u>

[7]

- (d) (i) Name the heading under which bank will be shown in Ottoman's balance sheet on 30 September 2010.

balance b/f

- (ii) State the amount which will be entered for bank in Ottoman's balance sheet on 30 September 2010.

\$4130

[4]

Examiner comment

Total mark, 13/23: An answer showing good knowledge of the cash book and bank reconciliation and some good application skills.

- Part (a), mark 2/4: The answers given were both of the same type and only one earned the marks.  
 Part (b), mark 3/8: An incorrect opening balance was entered and correct entries were made to adjust for the rent received and the bank charges, but additional items were included in error and so no marks were earned for the balance carried down.  
 Part (c), mark 6/7: One mark was lost as the answer included additional items in error and so did not reconcile to the balance given in the question.  
 Part (d), mark 2/4: An incorrect balance sheet heading was shown but own figure marks were earned in (ii) for using the calculated balance from (b).

Example candidate response – grade E

- 3 Ottoman compared his cash book with the statement from his bank at 30 September 2010 and found the balance shown on the bank statement did not agree with the balance in the bank column of his cash book.

REQUIRED

- (a) Give two reasons why the balance shown in a cash book might not agree with the balance shown on a bank statement at the same date.

- (i) ~~There might have been an error of~~  
 There might have had some un-presented cheques  
~~or~~  
~~principle as putting a balance in credit side instead of~~
- (ii) There might also be an error of  
 omission leaving out other entries/balances. [4]

On 30 September 2010 the balance on Ottoman's cash book (bank column) was \$850 Dr. The balance shown on his bank statement was \$1660.

The cash book was checked against the bank statement and the following differences were found.

- 1 Cheques totalling \$250 issued to creditors had not been presented for payment.
- 2 Rent received of \$800 paid directly into the bank on 30 September did not appear in the cash book.
- 3 Bank charges of \$60 were shown on the bank statement but had not been entered in the cash book.
- 4 Cash sales recorded as \$1200 were shown on the bank statement correctly as \$1500.
- 5 A cheque received from Hans for \$480 and deposited at the bank on 28 September has been entered in the cash book but has not yet been shown on the bank statement.

- (b) Make any additional entries which are required in Ottoman's cash book. Balance the cash book at 30 September 2010 and find the adjusted balance carried down.

Ottoman - Cash Book (bank columns)

Date	Detail	Dr \$	Date	Detail	Cr \$
30 sept	balance	850	30 sept	Expense	60
	Unpresented cheqs	250		Sales	1500
	Rent received	800			
28 Sept	Cheque	480			
			30 sept	balance b/f	820
		2380			2380
30 sept	balance b/f	820			

[8]

- (c) Prepare a bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 30 September 2010.

Ottoman  
Bank Reconciliation Statement at 30 September 2010

30 sept balance	1660	30 sept Cash book	820
Cheques	250	Rent	800
		Expenses	60
	1910		1910
Bank statement	1910		

[7]

- (d) (i) Name the heading under which bank will be shown in Ottoman's balance sheet on 30 September 2010.

Cash Book.

- (ii) State the amount which will be entered for bank in Ottoman's balance sheet on 30 September 2010.

\$ 820

[4]

Examiner comment

Total mark, 9/23: A reasonable answer showing some knowledge of the cash book but not a strong attempt at the bank reconciliation.

Part (a), mark 4/4: Two acceptable reasons were given.



- Part (b), mark 3/8: Correct entries were made for the opening balance and the adjustment for rent received but an incorrect description was used for the bank charges, additional items were included in error, and no marks were earned for the balance carried down.
- Part (c), mark 0/7: The reconciliation did not include the correct items and earned no marks.
- Part (d), mark 2/4: An incorrect balance sheet heading was shown but own figure marks were earned in (ii) for using the calculated balance from (b).

### Question 4

#### Mark scheme

- 4 (a)** To inform or remind the customer of the amount due  
 To confirm the settlement terms  
 To ensure that no errors have been made by customer or supplier  
 Other relevant comment *any one* [2]
- (b) (i)** Sam had taken 2% discount (\$8.00) [1]  
*accept any mention of discount taken, whether entitled or not*
- (ii)** No, not correct amount **(1)**  
 Sam did not pay the amount due within the 21 days / time limit allowed to earn any discount **(2)** [3]
- (c) (i)** Amount due \$265.00 **(1)** @ 2% **(1)** = \$5.30 **(1)** [3]  
*(correct figures only)*
- (ii)** Net amount due \$265.00 **(1)** – \$5.30 **(1)** = \$259.70 **(1)** [3]  
*(correct figures only)*

**(d)** Sam Sumo account

September		\$	September		\$
1	Balance b/d	400.00 <b>(1)</b>	19	[Sales][returns in][Cr note 29]	16.50 <b>(1)</b>
7	[Sales][invoice][301]	56.50 <b>(1)</b>	28	Bank	392.00 <b>(1)</b>
12	[Sales][invoice][330]	217.00 <b>(1)</b>	30	Balance c/d	265.00 <b>(1)</b>
		<u>673.50</u>			<u>673.50</u>
				<i>(OF if no aliens, may award) if account reversed)</i>	

Sales account

September		\$	September		\$
7	Sam Sumo	56.50 <b>(1)</b>			
	<i>not invoice or total sales</i>				
12	Sam Sumo	217.00 <b>(1)</b>			
	<i>not invoice or total sales</i>				

Sales returns account

September		\$	September		\$
19	Sam Sumo	16.50 <b>(1)</b>			
	<i>not total sales returns</i>				

Cash book – bank column

September		\$	September	\$
28	Sam Sumo	392.00	(1)	

(Marks are for detail, correct amount and correct Dr or Cr)

[10]

- (e) Pay balance within 21 days / by due date / within terms / on time  
(not pay more quickly, prompt payment, etc.)

[2]

[Total: 24]

Example candidate response – grade A

- 4 Sam Sumo received a statement of his account with the Eastern Commercial Company at 30 September 2010.

REQUIRED

- (a) Give one purpose of sending a statement of account to a customer.

To inform the customer with all his purchases, returns  
and every thing happened. [2]

Sam's statement was as follows.

EASTERN COMMERCIAL COMPANY STATEMENT OF ACCOUNT				
Sam Sumo		30 September 2010		
Date	Detail	Dr \$	Cr \$	Balance \$
Sept 1	Balance b/f	400.00		400.00
7	Sales – invoice 301	56.50		456.50
12	Sales – invoice 330	217.00		673.50
19	Sales returns – credit note 29		16.50	657.00
28	Bank – Sam Sumo		392.00	265.00
30	Balance c/f			265.00

Terms: 2% discount for settlement within 21 days.



- (b) (i) State why Sam paid \$392 on 28 September when the balance brought forward on 1 September was \$400.

..... as \$ 400 was the amount on paid (owing) the previous .....  
 ..... year. While \$392 is the amount paid this year ..... [1]

- (ii) State whether this payment was for the correct amount. Give a reason for your answer.

..... ~~yes~~, No, as he should have a cash discount for \$ 7.84 .....  
 ..... for settlement within 21 days .....  
 ..... [3]

On 19 October 2010 Sam deducted the discount offered from the balance on the statement dated 30 September 2010 and paid the net amount which he considered was due.

**REQUIRED**

- (c) (i) Calculate the amount Sam deducted from the balance due at 30 September. Show your workings.

.....  $2\% \times 265 = 5.3$  .....  
 ..... [3]

- (ii) State the net amount which Sam paid on 19 October.

.....  $265 - 5.3 = 259.7$  .....  
 ..... [3]

- (d) Show the entries in the Eastern Commercial Company's accounts for the month of September to record each of the transactions shown in the statement of account on page 11.

Balance Sam Sumo's account at 30 September.

Dr.		Sam Sumo account (debtor)		Cr.		
2010 1 Sept	balance b/f	400		2010 19 Sept	Sales returns - Credit transfers	16.50
2010 7 Sept	Sales invoice	56.50		2010 28 Sept	Bank (credit)	392.00
2010 12 Sept	Sales invoice	217		2010 19 Oct	discount allowed	5.3
				2011 30 Sept	balance c/d	259.7
		<u>673.5</u>				<u>673.5</u>
2011 1 Oct	balance b/d	259.7				

Dr.		Sales account		Cr.		
2010 7 Sept	Sam Sumo	56.50		2010 30 Sept	Trading account	273.5
2010 12 Sept	Sam Sumo	217				
		<u>273.5</u>				<u>273.5</u>

Dr.		Sales returns account		Cr.		
2010 19 Sept	Sam Sumo	16.50		2010 30 Sept	Trading account	16.50
		<u>16.50</u>				<u>16.50</u>

Cash book - bank columns (dr side)			
Date	details	discount allowed	bank
2010 28 Sept			392.00
2010 19 Oct		5.3	
		<u>5.3</u>	<u>392.00</u>

[10]

Dr.		sales account		Cr.		
2010 30 Sept	Trading account	273.5		2010 7 Sept	Sam Sumo	56.50
		<u>273.5</u>		2010 12 Sept	Sam Sumo	217
						<u>273.5</u>

- (e) Sam wishes to take advantage each month of the discount terms offered by the Eastern Commercial Company.

Explain how Sam can ensure he obtains the discount each month.

By prompt payment made by early settlement.

[12]

Examiner comment

- Total mark, 18/24: A very good answer showing a high level of knowledge but an incorrect explanation of why the payment was not for the correct amount and the answer to (e) was not sufficiently specific.
- Part (a), mark 2/2: An acceptable answer which earned the marks.
- Part (b), mark 1/4: An incorrect answer was given for (i). In (ii), one mark was earned for stating the payment was not for the correct amount but no marks were awarded for the explanation which was incorrect.
- Part (c), mark 6/6: The correct figures were given and earned the marks.
- Part (d), mark 9/10: Most of the ledger entries were correct but one mark was lost by wrongly including an entry for discount in Sam Sumo’s account and carrying down an incorrect balance.
- Part (e), mark 0/2: The answer did not specify that payment should be made within 21 days and was not awarded the marks.

Example candidate response – grade C

4 Sam Sumo received a statement of his account with the Eastern Commercial Company at 30 September 2010.

REQUIRED

(a) Give one purpose of sending a statement of account to a customer.

In order for the customer to know how much they are owing [2]

Sam’s statement was as follows.

EASTERN COMMERCIAL COMPANY STATEMENT OF ACCOUNT				
Sam Sumo		30 September 2010		
Date	Detail	Dr \$	Cr \$	Balance \$
Sept 1	Balance b/f	400.00		400.00
7	Sales – Invoice 301	56.50		456.50
12	Sales – invoice 330	217.00		673.50
19	Sales returns – credit note 29		16.50	657.00
28	Bank – Sam Sumo		392.00	265.00
30	Balance c/f			265.00

Terms: 2% discount for settlement within 21 days.



- (b) (i) State why Sam paid \$392 on 28 September when the balance brought forward on 1 September was \$400.

Yes Because discount was subtracted hence  
 $\$400 - \$8 = \$392$  [1]

- (ii) State whether this payment was for the correct amount. Give a reason for your answer.

No the payment was not correct because  
 it had to subtracted from the  
 total. [3]

On 19 October 2010 Sam deducted the discount offered from the balance on the statement dated 30 September 2010 and paid the net amount which he considered was due.

#### REQUIRED

- (c) (i) Calculate the amount Sam deducted from the balance due at 30 September. Show your workings.

Discount =  $\frac{2}{100} \times 400 = \$8$   
 [3]

- (ii) State the net amount which Sam paid on 19 October.

$\$265 - \$8 = \$257$   
 [3]

- (d) Show the entries in the Eastern Commercial Company's accounts for the month of September to record each of the transactions shown in the statement of account on page 11.

Balance Sam Sumo's account at 30 September.

Sam Sumo account

<p>25 Sept 1 Balance c/d 400</p> <p>7 Sales 56</p> <p>12 Sales 217</p> <p style="text-align: right;">673</p> <p>01 Oct 1 Balance b/d 264,50</p>	<p>Sept 2020 19 Sales Returns 16,50</p> <p>28 Bank 392,00</p> <p>30 Sept Balance c/d 264,50</p> <p style="text-align: right;">673</p>
---	---

Sales account

<p>Sept 30 Balance c/d 273</p> <p style="text-align: right;">273</p>	<p>7 Sam Sumo 56</p> <p>12 Sam Sumo 217</p> <p style="text-align: right;">273</p>
--	---

Sales returns account

<p>Sept 19 Sam Sumo 16,50</p>	<p>Sept 30 Balance c/d 16,50</p>
-----------------------------------	--------------------------------------

Cash book – bank columns

	<p>Sept 19 Sales Returns 16,50</p> <p>Sept 28 Bank 392</p>	
408,5		408,5

[10]

- (e) Sam wishes to take advantage each month of the discount terms offered by the Eastern Commercial Company.

Explain how Sam can ensure he obtains the discount each month.

He could pay before due date for payments.

[2]

Examiner comment

Total mark, 14/24: A sound answer showing a good standard of knowledge and application but some weakness in understanding discount.

- Part (a), mark 2/2: This was an acceptable answer which earned the marks.
- Part (b), mark 1/4: The answer correctly stated that discount had been subtracted from the amount due but did not give an explanation as to why this was wrong.
- Part (c), mark 2/6: Some marks were earned for this answer as the correct percentage was used to calculate discount which was then deducted from the correct balance but the wrong net amount was calculated.
- Part (d), mark 7/10: Many of the entries in the ledger accounts were correct but the amount entered for the sale on 7 September was wrong and the entry in the cash book was on the wrong side of the book.
- Part (e), mark 2/2: This was an acceptable answer which earned the marks.

Example candidate response – grade E

4 Sam Sumo received a statement of his account with the Eastern Commercial Company at 30 September 2010.

**REQUIRED**

(a) Give one purpose of sending a statement of account to a customer.

*To provide the customer with important information about The eastern commercial company transactions for goods.*

Sam's statement was as follows.

EASTERN COMMERCIAL COMPANY STATEMENT OF ACCOUNT				
Sam Sumo		30 September 2010		
Date	Detail	Dr \$	Cr \$	Balance \$
Sept 1	Balance b/f	400.00		400.00
7	Sales – invoice 301	56.50		456.50
12	Sales – invoice 330	217.00		673.50
19	Sales returns – credit note 29		16.50	657.00
28	Bank – Sam Sumo		392.00	265.00
30	Balance c/f			265.00

Terms: 2% discount for settlement within 21 days.



- (b) (i) State why Sam paid \$392 on 28 September when the balance brought forward on 1 September was \$400.

Because he received a trade discount or  
 he received a 2% discount even though he didn't  
 settle his payment before 21 days. [1]

- (ii) State whether this payment was for the correct amount. Give a reason for your answer.

This payment was not the correct amount because  
 he was supposed to pay before 21 days to get a  
 2% discount but he had paid 7 days after [3]  
 the deadline.

On 19 October 2010 Sam deducted the discount offered from the balance on the statement dated 30 September 2010 and paid the net amount which he considered was due.

**REQUIRED**

- (c) (i) Calculate the amount Sam deducted from the balance due at 30 September. Show your workings.

$\$265 \times 5\% = \$13.25$   
 $\$265 - \$13.25 = \$251.75$  [3]

- (ii) State the net amount which Sam paid on 19 October.

\$260. [3]

- (d) Show the entries in the Eastern Commercial Company's accounts for the month of September to record each of the transactions shown in the statement of account on page 11.

Balance Sam Sumo's account at 30 September.

Sam Sumo account							
Date	Detail	Folio	\$	Date	Detail	Folio	\$
1/Sep/10	Balance b/d		400	7/Sep/10	sales	301	56.50
	Bank		265	12/Sep/10	sales	330	217
	sales ret		16.50	30/Sep/10	Balance c/d		408
			681.50				681.50
1/Oct/10	Balance b/d		408				

Sales account							
Date	Detail	Folio	\$	Date	Detail	Folio	\$
7/Sep/10	sales	301	56.50	19/Sep/10	sales ret		16.50
12/Sep/10	sales	330	217.00	30/Sep/10	Balance c/d		257.00
			273.50				

Sales returns account							
Date	Detail	Folio	\$	Date	Detail	Folio	\$
19/Sep/10	sales ret		16.50	Balance c/d			16.50
			16.50				16.50

Cash book - bank columns							
Date	Detail	Folio	\$	Date	Detail	Folio	\$
1/Sep/10	Balance b/d		400	30/09/10	Balance b/d		400
				30/09/10	Balance c/d		135
			400				400

[10]

- (e) Sam wishes to take advantage each month of the discount terms offered by the Eastern Commercial Company.

Explain how Sam can ensure he obtains the discount each month.

That he pay on time before the given time for payment.

[2]

[Total: 24]



## Examiner comment

Total mark, 9/24:	An answer showing some knowledge of discount but needing more detail and more practice at writing up ledger accounts.
Part (a), mark 0/2:	This answer was not sufficient to earn the marks.
Part (b), mark 4/4:	This answer correctly identified that discount had been claimed, should not have been, and gave a correct explanation.
Part (c), mark 1/6:	The answer showed understanding of discount but used the wrong rate and gave incorrect calculations.
Part (d), mark 2/10:	This answer gave most of the entries on the incorrect side of the ledger and some additional incorrect entries. Some marks were earned for correct balances.
Part (e), mark 2/2:	This was an acceptable answer which earned the marks.

## Question 5

## Mark scheme

- 5 (a)** To spread the cost of the asset over its useful life [2]  
*(not to calculate profit or loss on sale etc.)*  
*(not **causes** of depreciation, but accept depletion, wear and tear, obsolescence and usage over time as **reasons** for need to depreciate.)*

- (b) (i)**  $\$3200 (1) - \$700 (1) = \$2500 / 5 (1) = \$500 (1)$  **OF**  
*(Note: if answer then goes on to give NBV, do not award calculation mark, so max 3)*

- (ii)** Same amount – \$500 **(2)** [OF only if agrees with **(b) (i)**]  
*(if answer then goes on to give NBV, no marks)* [6]

- (c)** Martina  
 Balance Sheet at 30 September 2010 (extract)

	Cost	Provision for Depreciation	Net book value	
	\$	\$	\$	
Non-current (fixed) assets				
Equipment (machine) <b>(1)</b>	3 200 <b>(1)</b>	1 000 <b>(1)</b>	2 200 <b>(1)OF</b>	[4]
	<i>(no mark if other asset classes included)</i>	<i>(accept OF from (b))</i>		

*If answer laid out as two years separately, award only 1 mark for asset narrative and 1 mark for correct or OF final NBV*

- (d)** Disposal of machinery account

October	\$	October	\$
15 Machinery/equipment	3 200 <b>(1)</b>	15 [Provision for] Depreciation	1 000 <b>(1)OF</b>
<i>(accept cost, not price, balance)</i>		<i>(OF from (c))</i>	
		15 Bank/cash <b>(not cash book)</b>	400 <b>(1)</b>
		<b>(not scrap/disposal)</b>	
		15 Income statement	1 800 <b>(2)OF</b>
		<i>(accept profit/loss acc, loss)</i>	
	<u>3 200</u>		<u>3 200</u>

[5]

- (e) Straight line [method] (1)  
over three years (33.3%) (1),  
to fully depreciate over that period (1), or [3]
  
- Reducing balance [method] (1) (not reducing method)  
at rate >75% (1)  
to fully depreciate over three years (1) [3]
  
- Revaluation [method] (1) only

[Total: 20]

Example candidate response – grade A

5 Martina started a business on 1 October 2008 printing designs on T-shirts and bought a printing machine for \$3200.

She decided to depreciate the printing machine on the straight line basis over 5 years and expected the machine to have a scrap value of \$700 after that time.

REQUIRED

(a) State one reason for charging depreciation on non-current (fixed) assets in an income statement (profit and loss account).

To use the amount when that fixed asset is sold. [2]

(b) Calculate the depreciation charged in Martina's income statement (profit and loss account) for each of the two years ended 30 September 2009 and 2010.

Show all your workings.

(i) year ended 30 September 2009

$$\text{Depreciation} = \frac{\text{Cost} + \text{Scrap Value}}{\text{years}} = \frac{3200 + 700}{5} = \frac{3900}{5} = \$780$$

(ii) year ended 30 September 2010

Depreciation = ~~Cost + Scrap Value~~ # \$780  
~~years~~ [6]

(c) Complete the following extract from Martina's balance sheet at 30 September 2010.

Martina  
Balance Sheet at 30 September 2010 (extract)

Details	Cost \$	Provision for depreciation \$	Net book value \$
Non-current (fixed) assets			
Printing Machine	3200	1560	1640

[4]

A new and quicker method of electronic T-shirt printing became available on 1 October 2010 using a machine costing only \$1500.

Martina bought the new machine on 15 October 2010 and sold the existing machine for scrap for \$400.

**REQUIRED**

- (d) Prepare the Disposal of non-current (fixed) assets account in Martina's ledger to show the scrapping of the old machine and the amount to be transferred to the income statement (profit and loss account).

Oct	15	Printing Machine	- 3200	Provision for depreciation	- 1560
				Bank	- 400
				P&L A/c (Loss)	- 1240
			3200		3200
					[5]

Martina expects the new machine to have a useful life of five years and to have no scrap value after that time. However, she does not wish to show a loss on disposal if she has to scrap the machine after three years.

**REQUIRED**

- (e) Suggest which method and rate of depreciation Martina should use to depreciate the new machine.

Give reasons for your answer.

Reducing balance method because its depreciation would never be zero.

[3]

[Total: 20]

**Examiner comment**

- Total mark, 15/20: This answer showed very good application skills and gave good responses to calculating depreciation, showing the balance sheet extract and the disposal account but was not so strong at explaining depreciation theory.
- Part (a), mark 0/2: The answer given is not an acceptable reason for charging depreciation on non-current assets.
- Part (b), mark 5/6: The formula used for calculating depreciation was incorrect as the scrap value should be deducted from the cost. Own figure marks were awarded for correct calculations and for using the same figure for depreciation in the second year.
- Part (c), mark 4/4: Marks were awarded for correct entries in the balance sheet extract, using own figures from (b).
- Part (d), mark 5/5: The entries in the disposal account were correct using own figures and the marks awarded.
- Part (e), mark 1/3: One mark was earned for suggesting the reducing balance method but no rate of depreciation was suggested.



Example candidate response – grade C

- 5 Martina started a business on 1 October 2008 printing designs on T-shirts and bought a printing machine for \$3200.

She decided to depreciate the printing machine on the straight line basis over 5 years and expected the machine to have a scrap value of \$700 after that time.

REQUIRED

- (a) State **one** reason for charging depreciation on non-current (fixed) assets in an income statement (profit and loss account).

*To take up the cost over time or understate expenses* [2]

- (b) Calculate the depreciation charged in Martina's income statement (profit and loss account) for **each** of the **two** years ended 30 September 2009 and 2010.

Show all your workings.

- (i) year ended 30 September 2009

$$\frac{3200 - 700}{5} = 580$$

$$\begin{array}{r} 3200 \\ - 500 \\ \hline 2700 \end{array}$$

- (ii) year ended 30 September 2010

$$\begin{array}{r} 2700 \\ - 500 \\ \hline 2200 \end{array}$$
 [6]

- (c) Complete the following extract from Martina's balance sheet at 30 September 2010.

Martina  
Balance Sheet at 30 September 2010 (extract)

	Cost \$	Provision for depreciation \$	Net book value \$
<u>Non-current (fixed) assets</u>			
<i>Printing Machine</i>	<i>3200</i>	<i>500</i>	<i>2700</i>
<i>Printing Machine</i>	<i>3200</i>	<i>1000</i>	<i>2200</i>

 [4]

A new and quicker method of electronic T-shirt printing became available on 1 October 2010 using a machine costing only \$1500.

Martina bought the new machine on 15 October 2010 and sold the existing machine for scrap for \$400.

**REQUIRED**

- (d) Prepare the Disposal of non-current (fixed) assets account in Martina's ledger to show the scrapping of the old machine and the amount to be transferred to the income statement (profit and loss account).

Disposal of machinery account			
1 Oct Bank	1500	15 Oct Scrap	0.00
		31 Oct Profit Loss	11.00
	1500		16.00
			[5]

Martina expects the new machine to have a useful life of five years and to have no scrap value after that time. However, she does not wish to show a loss on disposal if she has to scrap the machine after three years.

**REQUIRED**

- (e) Suggest which method and rate of depreciation Martina should use to depreciate the new machine.

Give reasons for your answer.

She could use the reducing balance method which she would not need any scrap value but to depreciate according to its life time as at a rate of 2% per annum [3]

[Total: 20]

**Examiner comment**

- Total mark, 10/20 An answer showing a good knowledge of depreciation and non-current assets and good ability in calculation skills.
- Part (a), mark 0/2: The answer given was not an acceptable reason for charging depreciation on non-current assets.
- Part (b), mark 3/6: Some marks were earned as depreciation was correctly calculated but was then deducted from cost so the answer given was the net book value, which was not correct.
- Part (c), mark 4/4: The balance sheet extract was correct.
- Part (d), mark 2/5: No entry in the disposal account was shown for cost or depreciation, and the entry for bank was on the wrong side, but some marks were earned for an own figure calculation of the loss on disposal.
- Part (e), mark 1/3: One mark was earned for suggesting the reducing balance method but the suggested rate of depreciation was incorrect.

Example candidate response – grade E

- 5 Martina started a business on 1 October 2008 printing designs on T-shirts and bought a printing machine for \$3200.

She decided to depreciate the printing machine on the straight line basis over 5 years and expected the machine to have a scrap value of \$700 after that time.

REQUIRED

- (a) State one reason for charging depreciation on non-current (fixed) assets in an income statement (profit and loss account).

Showing the depreciated amount over the overall time calculated [2]

- (b) Calculate the depreciation charged in Martina's income statement (profit and loss account) for each of the two years ended 30 September 2009 and 2010.

Show all your workings.

- (i) year ended 30 September 2009

$$\frac{3200}{5} = 640 \quad \text{Apr} = \text{Cost Price} \quad \text{Scrap Value}$$

- (ii) year ended 30 September 2010

$$\frac{3200 - 640 + 640}{5} = 1280$$

- (c) Complete the following extract from Martina's balance sheet at 30 September 2010.

Martina  
Balance Sheet at 30 September 2010 (extract)

	Cost \$	Provision for depreciation \$	Net book value \$
Non-current (fixed) assets			
Printing Machine	3200	700	2500



A new and quicker method of electronic T-shirt printing became available on 1 October 2010 using a machine costing only \$1500.

Martina bought the new machine on 15 October 2010 and sold the existing machine for scrap for \$400.

**REQUIRED**

(d) Prepare the Disposal of non-current (fixed) assets account in Martina's ledger to show the scrapping of the old machine and the amount to be transferred to the income statement (profit and loss account).

Disposal of machinery account

	COST	DEP	NBU
Old machine	400	-	-
Income Statement	400		
			[5]

Martina expects the new machine to have a useful life of five years and to have no scrap value after that time. However, she does not wish to show a loss on disposal if she has to scrap the machine after three years.

**REQUIRED**

(e) Suggest which method and rate of depreciation Martina should use to depreciate the new machine.

Give reasons for your answer.

Straight line method as it doesn't make change to the amount up on a fixed level.

[3]

**Examiner comment**

- Total mark, 7/20: An answer showing some knowledge of depreciation and moderate application skills but problems with the disposal account.
- Part (a), mark 0/2: The answer was confused and did not give an acceptable reason for charging depreciation.
- Part (b), mark 3/6: Some marks were earned as depreciation was calculated but no adjustment was made for the scrap value of the asset and an incorrect answer was given for (ii).
- Part (c), mark 3/4: The balance sheet extract gave the correct narrative and cost, and an own figure net book value, but used an incorrect provision for depreciation.
- Part (d), mark 0/5: No correct entries were made in the disposal account.
- Part (e), mark 1/3: One mark was earned for proposing the straight line method but no rate of depreciation was suggested.

## Question 6

## Mark scheme

**6 (a)** Ricardo – Statement of affairs at 1 November 2009

	\$	\$	
Non-current (fixed) assets	12 000 <b>(1)</b>		
Current assets	110 000 <b>(1)</b>		
Less: current liabilities	<u>26 000</u> <b>(1)</b>		
		84 000	
Capital <b>(1)</b>		<u>96 000</u> <b>(2)OF</b>	[6]

*(mark for caption and amount, marks for capital amount if no aliens)  
(award marks for acceptable layouts)*

**(b)** Ricardo – Statement of affairs at 31 October 2010

	\$	\$	
Non-current (fixed) assets	14 000 <b>(1)</b>		
Current assets (95 500 <b>(1)</b> – 1 500 <b>(1)</b> )		94 000	
<i>(Provision for doubtful debts may be shown elsewhere)</i>			
Less: current liabilities	<u>24 000</u> <b>(1)</b>		
		70 000	
Capital <b>(1)</b>		<u>84 000</u> <b>(1)OF</b>	[6]

*(mark for caption and amount, marks for capital amount if no aliens)  
(award marks for acceptable layouts)*

**(c)** Ricardo – capital account

2010		\$		2009		\$
Oct 31	Drawings	90 000 <b>(1)</b>		Nov 1	Balance b/fwd	96 000 <b>(1)OF</b>
31	Balance c/d	84 000 <b>(1)OF</b>			<i>(OF mark only if amount from <b>(a)</b>)</i>	
				2010		
				Jan 1	Bank[new][capital][cash]	50 000 <b>(1)</b>
					<i>(not Ricardo)</i>	
				Oct 31	Net profit [or OF loss]	28 000 <b>(1)OF</b>
					<i>(no aliens for OF mark)</i>	
		<u>174 000</u>				<u>174 000</u>
					<i>+<b>(1)</b> for all correct dates</i>	

*Mark is for detail and amount. If account reversed, award P/L OF mark only.*

[6]



(d)

	Increase	Decrease	No change
Current assets	✓ (1)		
Long term liabilities	✓ (1)		
Revenue (sales)			✓ (1)
Working capital	✓ (1)		

[4]

[Total: 22]

Example candidate response – grade A

- 6 Ricardo has a business selling spare parts for cars. He lost many of his financial records in a flood but has been able to provide the following information.

	1 November 2009	31 October 2010
	\$	\$
Non-current (fixed) assets	12 000	14 000
Current assets	110 000	95 500
Current liabilities	26 000	24 000

Additional information:

- Ricardo introduced additional capital of \$50 000 on 1 January 2010.
- He took drawings of \$7500 each month.  $7500 \times 12 = 90000$
- He decided to increase the provision for doubtful debts by \$1500 on 31 October 2010.

REQUIRED

- (a) Prepare Ricardo's statement of affairs on 1 November 2009 showing his total capital at that date.

Ricardo – Statement of Affairs at 1 November 2009

Fixed Assets		12000
Current Assets	110000	
(-) Current liabilities	(26000)	
working Capital		84000
Total Capital employed		96000
financed by		
<del>Capital beg</del>		

[6]



Ricardo has decided to take a 5-year business loan from the bank. The money will be paid in to his business bank account.

**REQUIRED**

(d) In the table below, place a tick (✓) under the correct heading to show the effect which taking the loan will have on each of the following items.

	Increase	Decrease	No change
Current assets	✓		
Long term liabilities	✓		
Revenue (sales)			✓
Working capital			✓

[4]

[Total: 22]

**Examiner comment**

- Total mark, 17/22: An excellent answer to a new topic, showing very good levels of knowledge and good application skills, giving mostly correct opening and closing capital calculations but omitting some items from the capital account.
  
- Part (a), mark 6/6: This was a correct answer.
- Part (b), mark 5/6: This answer correctly showed the capital employed but then included additional incorrect items and lost the mark for an incorrect final description.
- Part (c), mark 3/6: The answer used the incorrect opening capital and omitted the additional capital but included the correct figure for drawings and the balance carried down and showed an acceptable own figure for net profit.
- Part (d), mark 3/4: The table was completed to show correct responses for current assets, long-term liabilities and revenue but an incorrect answer was shown for working capital.

Example candidate response – grade C

- 6 Ricardo has a business selling spare parts for cars. He lost many of his financial records in a flood but has been able to provide the following information.

	1 November 2009	31 October 2010
	\$	\$
Non-current (fixed) assets	12 000	14 000
Current assets	110 000	95 500
Current liabilities	26 000	24 000

Additional information:

- Ricardo introduced additional capital of \$50 000 on 1 January 2010.
- He took drawings of \$7500 each month.
- He decided to increase the provision for doubtful debts by \$1500 on 31 October 2010.

REQUIRED

- (a) Prepare Ricardo's statement of affairs on 1 November 2009 showing his total capital at that date.

Ricardo – Statement of Affairs at 1 November 2009

Date	Detail	\$	Date	Detail	\$	
2009			2009			
Nov. 1	fixed assets	12000	Nov. 1	current liabilities	26000	
	current assets	110000	2010	Jan. 1	Additional capital	50000
	Drawings (7500 x 12)	90000		Capital ?	96000	
	Drawings 7500 x 12	90000			126000	
		122			122	
		<u>212000</u>			<u>212000</u>	

[6]





Ricardo has decided to take a 5-year business loan from the bank. The money will be paid in to his business bank account.

**REQUIRED**

(d) In the table below, place a tick (✓) under the correct heading to show the effect which taking the loan will have on each of the following items.

	Increase	Decrease	No change
Current assets			✓
Long term liabilities	✓		
Revenue (sales)			✓
Working capital		✓	

[4]

[Total: 22]

**Examiner comment**

- Total mark, 12/22: A good answer to a new topic showing understanding of the concept of a statement of affairs and of the capital account.
- Part (a), mark 4/6: This answer showed the correct items to calculate the capital but also included an additional incorrect item and did not balance.
- Part (b), mark 5/6: The answer to this part also showed the correct items to calculate capital but incorrectly added the provision for doubtful debts.
- Part (c), mark 1/6: This answer had the entries for opening and closing capital on the wrong sides of the account, correctly showed the drawings but omitted the additional capital and gave an incorrect profit.
- Part (d), mark 2/4: The table was completed to show correct responses for long term liabilities and revenue but incorrect answers were shown for current assets and working capital.

Example candidate response – grade E

- 6 Ricardo has a business selling spare parts for cars. He lost many of his financial records in a flood but has been able to provide the following information.

	1 November 2009	31 October 2010
	\$	\$
Non-current (fixed) assets	12 000	14 000
Current assets	110 000	95 500
Current liabilities	26 000	24 000

Additional information:

- Ricardo introduced additional capital of \$50 000 on 1 January 2010.
- He took drawings of \$7500 each month.
- He decided to increase the provision for doubtful debts by \$1500 on 31 October 2010.

REQUIRED

- (a) Prepare Ricardo's statement of affairs on 1 November 2009 showing his total capital at that date.

Ricardo – Statement of Affairs at 1 November 2009

	DL	CR
Non-current assets		12 000
Current Assets	110 000	<del>140 000</del>
Current liabilities		26 000
Capital	<del>50 000</del>	50 000
Drawings	7 500	7 500
Provision for D.D	1 500	
		[6]

- (b) Prepare Ricardo's statement of affairs on 31 October 2010 showing his total capital at that date.

Ricardo – Statement of Affairs at 31 October 2010

Non Current (fixed) assets		14 000
Current Assets	95 500	
Current liabilities		24 000
Drawings		7 500
Capital		50 000
Provision for Doubtful Debts	1 500	<del>1 500</del>
	95 500	95 500

[6]

- (c) Prepare Ricardo's capital account for the year ended 31 October 2010. Show his net profit for the year and the balance carried down.

Ricardo – Capital account

Current liabilities	24 000	
Drawings		7 500
Capital		50 000
	88 500	24 000
	67 500	57 500
NET PROFIT c/d		33 500

[6]



Ricardo has decided to take a 5-year business loan from the bank. The money will be paid in to his business bank account.

**REQUIRED**

(d) In the table below, place a tick (✓) under the correct heading to show the effect which taking the loan will have on each of the following items.

	Increase	Decrease	No change
Current assets	✓		
Long term liabilities		✓	
Revenue (sales)	✓		
Working capital			✓

[4]

[Total: 22]

**Examiner comment**

- Total mark, 9/22: A reasonable answer to a new topic showing some understanding of the concept of a statement of affairs as a means of calculating capital.
- Part (a), mark 3/6: Some correct items were shown but this was an incomplete answer.
- Part (b), mark 4/6: Some marks were earned with correct narrative and items but drawings were incorrectly included and the provision for doubtful debts incorrectly excluded.
- Part (c), mark 1/6: The answer to the capital account included only one correct entry for the additional capital.
- Part (d), mark 1/4: The table was completed to show one correct response for current assets but incorrect answers were shown for the other headings.

## PAPER 2

### Question 1

#### Mark scheme

1

Robbie McDonald			
Income Statement (Trading and Profit and Loss Account) for the year ended 30 September 2010			
	\$	\$	\$
Revenue (sales)			216 000 <b>(1)</b>
Less Cost of sales			
Opening inventory (stock)		19 500 <b>(1)</b>	
Purchases	176 000 <b>(1)</b>		
Less Goods for own use	<u>1 900 <b>(1)</b></u>	<u>174 100</u>	
		193 600	
Less Closing inventory (stock)		<u>20 800 <b>(2)C/F</b></u>	
			<u>172 800 <b>(1)O/F</b></u>
Gross profit			43 200 <b>(2)</b>
Bad debts recovered			160 <b>(1)</b>
Decrease in provision for doubtful debts (372 – 352)			<u>20 <b>(2)</b></u>
			43 380
Less Wages		28 200 <b>(1)</b>	
Property tax and insurance (8900 <b>(1)</b> – 600 <b>(1)</b> )		8 300	
Administration expenses		4 410 <b>(1)</b>	
Bank interest		1 550 <b>(1)</b>	
Depreciation Motor vehicles (20% × 4800)		960 <b>(1)</b>	
Equipment (3000 – 2340)		<u>660 <b>(1)</b></u>	
Loss for the year (Net loss)			<u>700 <b>(1)O/F</b></u>

**Horizontal format acceptable**

**[20]**

**[Total: 20]**

## Example candidate response – grade A

- 1 The following trial balance was extracted from the books of Robbie McDonald at 30 September 2010.

	Dr \$	Cr \$
Capital		85 000
Drawings	5 100	
Premises at cost	58 000	
Motor vehicle at cost	6 000	
Equipment at valuation	3 000	
Provision for depreciation of motor vehicle		1 200
Provision for doubtful debts		372
Trade receivables (debtors)	17 600	
Bad debts recovered		160
Trade payables (creditors)		16 250
Bank overdraft		7 728
Inventory (stock) 1 October 2009	19 500	
Revenue (sales)		216 000
Purchases	176 000	
Wages	28 200	
Property tax and insurance	8 900	
Administration expenses	4 410	
	<u>326 710</u>	<u>326 710</u>

## Additional information

- Because of an oversight the inventory (stock) on 30 September 2010 was not valued. Robbie marks up all his stock by 25%.
- During the year ended 30 September 2010 Robbie took goods costing \$1900 for his own use. No entries have been made in the accounting records.
- The motor vehicle is being depreciated at 20% per annum using the reducing balance method.
- Equipment was valued at \$2340 on 30 September 2010. There were no sales or purchases of equipment during the year.
- The provision for doubtful debts is to be maintained at 2% of the trade receivables (debtors).
- A bank statement received on 30 September 2010 included an entry for bank interest of \$1550. No entries have been made in the accounting records.
- The property tax and insurance includes \$2400 for insurance of the premises. This represents insurance cover for the sixteen months to 31 January 2011.

**REQUIRED**

Prepare the income statement (trading and profit and loss account) of Robbie McDonald for the year ended 30 September 2010.

The value of the inventory (stock) on 30 September 2010 should be clearly shown in the income statement (trading and profit and loss account).



Robbie McDonald  
Income Statement (Trading and Profit and Loss Account) for the  
year ended 30 September 2010

For  
Examiner's  
Use

	\$	\$	\$	
Sales		✓	216 000	✓
Opening stock		19 500		
Add: Purchases	176 000			
less: Drawings in kind	190			
		177 900		
		197 400		
less: closing stock		24 375		OFR
cost of sales			173 025	OFR
Gross profit			42 975	X
decrease in				
Add: incomes - Bad debt recovered			160	✓
Provision for doubtful debts		(372 - 352)		✓
decrease in provision for			20	✓
depreciation of motor vehicle			43 155	
for			42 975	
less: Expenses				
Property tax & insurance (less prepaid)	8 900 - 600	8 300		✓
Bank interests		1 550		✓
Administration expenses		4 410		✓
Provision for depreciation of equipment		660		✓
Provision for depreciation of motor vehicle		960		✓
Total expenditures			15 880	
Net profit			27 275	✓
				OFR
				[20]
				[Total: 20]

**Examiner comment**

The candidate failed to calculate the gross profit correctly: this should have been 20% of the revenue (sales). However, the candidate earned own figure marks for the cost of sales and the closing inventory (stock). The only error in the profit and loss section was the omission of the expense of wages. The profit for the year (net profit) was arithmetically correct and was awarded an own figure mark.



## Example candidate response – grade C

- 1 The following trial balance was extracted from the books of Robbie McDonald at 30 September 2010.

	Dr \$	Cr \$
Capital		85 000
Drawings	5 100	
Premises at cost	58 000	
Motor vehicle at cost	6 000	
Equipment at valuation	3 000	
Provision for depreciation of motor vehicle		1 200
Provision for doubtful debts		372
Trade receivables (debtors)	17 600	
Bad debts recovered		160
Trade payables (creditors)		16 250
Bank overdraft		7 728
Inventory (stock) 1 October 2009	19 500	
Revenue (sales)		216 000
Purchases	176 000	
Wages	28 200	
Property tax and insurance	8 900	
Administration expenses	4 410	
	<u>326 710</u>	<u>326 710</u>

## Additional information

- Because of an oversight the inventory (stock) on 30 September 2010 was not valued. Robbie marks up all his stock by 25%.
- During the year ended 30 September 2010 Robbie took goods costing \$1900 for his own use. No entries have been made in the accounting records.
- The motor vehicle is being depreciated at 20% per annum using the reducing balance method.
- Equipment was valued at \$2340 on 30 September 2010. There were no sales or purchases of equipment during the year.
- The provision for doubtful debts is to be maintained at 2% of the trade receivables (debtors).
- A bank statement received on 30 September 2010 included an entry for bank interest of \$1550. No entries have been made in the accounting records.
- The property tax and insurance includes \$2400 for insurance of the premises. This represents insurance cover for the sixteen months to 31 January 2011.

**REQUIRED**

Prepare the income statement (trading and profit and loss account) of Robbie McDonald for the year ended 30 September 2010.

The value of the inventory (stock) on 30 September 2010 should be clearly shown in the income statement (trading and profit and loss account).





## Example candidate response – grade E

- 1 The following trial balance was extracted from the books of Robbie McDonald at 30 September 2010.

	Dr \$	Cr \$
Capital		85 000
Drawings	5 100	
Premises at cost	58 000	
Motor vehicle at cost	6 000	
Equipment at valuation	3 000	
Provision for depreciation of motor vehicle		1 200
Provision for doubtful debts		372
Trade receivables (debtors)	17 600	
Bad debts recovered		160
Trade payables (creditors)		16 250
Bank overdraft		7 728
Inventory (stock) 1 October 2009	19 500	
Revenue (sales)		216 000
Purchases	176 000	
Wages	28 200	
Property tax and insurance	8 900	
Administration expenses	4 410	
	<u>326 710</u>	<u>326 710</u>

## Additional information

- Because of an oversight the inventory (stock) on 30 September 2010 was not valued. Robbie marks up all his stock by 25%.
- During the year ended 30 September 2010 Robbie took goods costing \$1900 for his own use. No entries have been made in the accounting records.
- The motor vehicle is being depreciated at 20% per annum using the reducing balance method.
- Equipment was valued at \$2340 on 30 September 2010. There were no sales or purchases of equipment during the year.
- The provision for doubtful debts is to be maintained at 2% of the trade receivables (debtors).
- A bank statement received on 30 September 2010 included an entry for bank interest of \$1550. No entries have been made in the accounting records.
- The property tax and insurance includes \$2400 for insurance of the premises. This represents insurance cover for the sixteen months to 31 January 2011.

**REQUIRED**

Prepare the income statement (trading and profit and loss account) of Robbie McDonald for the year ended 30 September 2010.

The value of the inventory (stock) on 30 September 2010 should be clearly shown in the income statement (trading and profit and loss account).

Robbie McDonald  
Income Statement (Trading and Profit and Loss Account) for the  
year ended 30 September 2010

	DR \$	CR \$
Sales		216 000 ✓
Opening stock	19 500 ✓	
+ Purchases	17 600 ✗	
- Closing stock	78 000 <del>4 075</del> ✗	79 900 ✗
Gross profit		223 990 ✗
× Premises at cost	58 000	
× Motor vehicle at cost	6 000	
Bad debts	212 ✗	
× Trade receivables	17 600	
Wages	28 200 ✓	
Property tax and insurance	8 900 ✓	
Administration expenses	4 410 ✓	
× Insurance	2 400 ✗	175 722
× Net profit		98 268
[20]		
[Total: 20]		

Examiner comment

It was disappointing to see the candidate inserting a gross profit which was larger than the revenue (sales). No mark was awarded for the cost of sales as this was arithmetically incorrect. A careless error was made when the figure of purchases was entered as \$17 600 rather than \$176 000. The closing inventory (stock) was not arithmetically correct so the own figure mark was lost. In the profit and loss section, the two items of income were omitted. Several assets were included in the expenses, resulting in the own figure mark for profit for the year (net profit) being lost. Depreciation and bank interest were omitted. The adjustment for insurance prepaid was incorrectly calculated, and the adjustment should have been made on the figure of \$8900 rather than being shown as a separate item.



Question 2 (a)

Mark scheme

- (a) Assist in the location of errors
- Provide instant totals of trade receivables (debtors) and trade payables (creditors)
- Proves the arithmetical accuracy of the sales/purchases ledgers
- Enable a balance sheet to be prepared quickly
- Provide a summary of the transactions relating to trade receivables (debtors) and trade payables (creditors)
- Provide an internal check on sales/purchases ledgers – may reduce fraud

**Or other relevant points**

**Any 2 points (1) each**

**[2]**

Example candidate response – grade A

(a) State two advantages of preparing control accounts.

- (i) To provide instant totals for debtors and creditors.
  - (ii) To prove the arithmetic accuracy of the purchases ledger and sales ledger.
- [2]

Examiner comment

Full marks were gained for an excellent answer.

Example candidate response – grade C

(a) State two advantages of preparing control accounts.

- (i) Helps check the arithmetic accuracy of the sales and purchases ledger. Journals.
  - (ii) Helps in fraud detection done by an employee.
- [2]

Examiner comment

The first mark was unfortunately lost as the candidate stated that control accounts helped check the accuracy of the sales and purchases journals. A mark was awarded for the second advantage stated.

Example candidate response – grade E

(a) State **two** advantages of preparing control accounts.

(i) it saves time because all entries are recorded and you can just check which accounts or figures for that account in the control account  
 (ii) it avoids fraud and mistakes because it should balance or be the same as the account so no mistakes are made. [2]



Examiner comment

No mark could be awarded for the first statement as it was totally inaccurate. Simply preparing control accounts does not prevent fraud and mistakes: control accounts may make fraud more difficult and assists in the discovery of fraud and errors.

Question 2 (b)

Mark scheme

(b)

Suzie Chow  
Sales ledger control account

		\$			\$
2010			2010		
Sept 1	Balance	21 976 (1)	Sept 1	Balance	54 (1)
30	Sales	22 800 (1)	30	Bank	21 860 (1)
	Bank (Dis. Chq)	610 (1)		Discount allowed	488 (1)
				Sales returns	391 (1)
				Bad debts	100 (1)
				Contra entry	78 (1)
				Balance c/d	<u>22 415 (1)</u>
		<u>45 386</u>			<u>45 386</u>
2010					
Oct 1	Balance b/d	22 415 (1)O/F			

[11]

Alternative presentation

Sales ledger control account

		Debit	Credit	Balance
		\$	\$	\$
2010				
Sept 1	Balances	21 976 (1)	54 (1)	21 922 Dr
30	Sales	22 800 (1)		44 722 Dr
	Bank (Dis. Chq.)	610 (1)		45 332 Dr
	Bank		21 860 (1)	23 472 Dr
	Discount allowed		488 (1)	22 984 Dr
	Sales returns		391 (1)	22 593 Dr
	Bad debts		100 (1)	22 493 Dr
	Contra entry		78 (1)	22 415 Dr
				(2) C/F
				(1) O/F

[11]

Example candidate response – grade A

Suzie Chow provided the following information for the month of September 2010.

		\$
September 1	Debit balances in sales ledger	21 976
	Credit balance in sales ledger	54
September 30	Totals for the month	
	Cheques paid to credit suppliers	24 585
	Cheques received from credit customers	21 860
	Cheque received from a credit customer (included in the cheques received shown above) later dishonoured	610
	Discounts allowed	488
	Discounts received	532
	Returns to credit suppliers	414
	Returns by credit customers	391
	Credit sales	22 800
	Bad debts written off	100
	Provision for doubtful debts	550
	Contra entry	78

**REQUIRED**

- (b) Select the relevant figures and prepare Suzie Chow's sales ledger control account for the month ended 30 September 2010.

There is only one balance on the account at the end of the month.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 October 2010.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Suzie Chow Sales ledger control account				For Examiner Use		
2010		2009				
01/09	Balance b/f	21 976	01/09	Balance b/f	54	✓
30/09	Sales	22 800	30/09	Bank	21 860	✓
30/09	Dishonoured cheques	610	30/09	Discount Allowed	488	✓
	Contra entry	78	30/09	Returns	391	✓
			30/09	Bad debts written off	100	✓
			30/09	Contra entry	78	
			30/09	Balance c/d	22 493	✗
		45 464			45 464	
01/10	Balance b/d	22 493				✓
						[11]

Examiner comment

This was a good answer. The only error made was to include the contra entry on both sides of the account. This resulted in the loss of the mark for this item and also the mark for the balance carried down.



Example candidate response – grade C

Suzie Chow provided the following information for the month of September 2010.

		\$
September 1	Debit balances in sales ledger	21 976
	Credit balance in sales ledger	54
September 30	Totals for the month	
	Cheques paid to credit suppliers	24 585
	Cheques received from credit customers	21 860
	Cheque received from a credit customer (included in the cheques received shown above) later dishonoured	610
	Discounts allowed	488
	Discounts received	532
	Returns to credit suppliers	414
	Returns by credit customers	391
	Credit sales	22 800
	Bad debts written off	100
	Provision for doubtful debts	550
	Contra entry	78

**REQUIRED**

- (b) Select the relevant figures and prepare Suzie Chow's sales ledger control account for the month ended 30 September 2010.

There is only one balance on the account at the end of the month.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 October 2010.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Suzie Chow  
Sales ledger control account

Dr.			Cr.
Details	Amt (\$)	Details	Amt (\$)
Bal b/d	21976 ✓	Bal b/d	54 ✓
<del>Bank</del>	<del>20865</del>	Dis cheque	610 ✗
Sales	22800 ✓	Discount All	488 ✓
		Sales Returns	391 ✓
		Bad debts w/off	550 ✗
			2098
			<del>40</del>
		Bal c/d	42683 ✗
	(64696)		(64696)
	44776		44776 (11)

### Examiner comment

This was a reasonable answer. The cheques received from customers and the contra entry were completely omitted. A careless error meant that the amount of the provision for doubtful debts was used for the actual bad debts. The dishonoured cheque shown on the wrong side of the account. The candidate failed to follow the instruction to bring down the closing balance, so the mark was lost.

Example candidate response – grade E

Suzie Chow provided the following information for the month of September 2010.

		\$
September 1	Debit balances in sales ledger	21 976
	Credit balance in sales ledger	54
September 30	Totals for the month	
	Cheques paid to credit suppliers	24 585
	Cheques received from credit customers	21 860
	Cheque received from a credit customer (included in the cheques received shown above) later dishonoured	610
	Discounts allowed	488
	Discounts received	532
	Returns to credit suppliers	414
	Returns by credit customers	391
	Credit sales	22 800
	Bad debts written off	100
	Provision for doubtful debts	550
	Contra entry	78

**REQUIRED**

- (b) Select the relevant figures and prepare Suzie Chow's sales ledger control account for the month ended 30 September 2010.

There is only one balance on the account at the end of the month.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 October 2010.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Suzie Chow		Sales ledger control account		Exe
	45487		49029	
Sept 1 balance	21976 ✓	Sept 1 balance	54 ✓	
Sept 30 bank	21860 ✗	Sept 30 bank	24585 ✓	
Sept 30 discounts received	532 ✗	Sept 30 dishonoured cheque	610 ✗	
Sept 30 returns in	391 ✗	Sept 30 discount allowed	488 ✓	
Sept 30 Bad debts written off	100 ✗	Sept 30 returns out	414 ✗	
Sept 30 Provision for doubtful debts	550 ✗	Sept 30 Sales	22800 ✗	
Sept 30 Contra entry	78 ✗	Sept 30 Contra entry	78 ✗	
Sept 30 balance c/d	3542 ✗			
	49029		49029 [11]	
		oct 1 balance b/d	3542 ✗	



### Examiner comment

This was a disappointing answer. The candidate showed a lack of understanding of sales ledger control accounts. All the figures given in the question were included and no attempt was made to select the ones relating to the sales ledger. The own figure mark for the closing balance brought down was not awarded because the account included extraneous items and the balance on a sales ledger control account is normally a debit balance.

### Question 2 (c)

#### Mark scheme

- (c) A contra entry is when an account in the sales ledger is set against an account in the purchases ledger. **(1)** Such an entry is made when a supplier is also a customer of the business and has an account in both ledgers. **(1)** [2]

#### Example candidate response – grade A

- (c) Explain the meaning of a contra entry in connection with control accounts and explain why such an entry may be made.
- Contra entry is made to set purchases ledger control account of sales ledger control account and vice versa. This occurs when one business is a debtor and creditor at the same time, so instead of each firm sending the other a cheque, they may agree to set off the accounts against each other and balance is settled by one firm sending a cheque. [2]

### Examiner comment

This was an excellent answer earning full marks.

#### Example candidate response – grade C

- (c) Explain the meaning of a contra entry in connection with control accounts and explain why such an entry may be made.
- A contra entry is when a transaction is recorded in both the purchases ledger control accounts and sales ledger control accounts, a contra entry is recorded when an amount is transferred from a sales ledger control account to a purchases ledger control account. [2]




Examiner comment

This was a moderate answer. The candidate correctly explained that a contra entry appears in both the sales ledger control account and the purchases ledger control account, but failed to explain why such an entry may be made.

Example candidate response – grade E

- (c) Explain the meaning of a contra entry in connection with control accounts and explain why such an entry may be made.

Contra means the relation between the bank and   
 Cash. Where the bank can give cash directly it  
 is faster and reliable and affects both the owner of  
 the accounts (control) and bank that is why it should be <sup>made</sup> [2]

Examiner comment

This was a very disappointing answer. Initially the candidate appeared to be describing a contra entry in a cash book. The rest of the answer was quite confused. The candidate showed a lack of understanding of a contra entry in control accounts.

Question 2 (d)

Mark scheme

- (d) The sales ledger control account acts as a check on the sales ledger. If there is an error in the sales ledger it will not be revealed by a control account prepared from the individual accounts in that ledger. [2]

Example candidate response – grade A

- (d) Explain why the information used to write up Suzie Chow's sales ledger control account is obtained from books of prime (original) entry and not from the sales ledger.

Control accounts check the accuracy of ledger to detect errors, <sup>sales ledger</sup>  
 so if control accounts <sup>was</sup> prepared from the sales ledger some  
 errors will be copied and never corrected while if [2]  
 information is obtained from books of prime entry differences  
 and thus errors will be located and corrected.

Examiner comment

Full marks were awarded for an excellent answer.

## Example candidate response – grade C

- (d) Explain why the information used to write up Suzie Chow's sales ledger control account is obtained from books of prime (original) entry and not from the sales ledger.

As sales ledger does not provide all information whereas book of prime entry does have all information. **X** [2]

## Examiner comment

This was a disappointing answer. The explanation was completely inaccurate. The candidate clearly did not understand why the information used in a control account is obtained from the books of prime (original) entry.

## Example candidate response – grade E

- (d) Explain why the information used to write up Suzie Chow's sales ledger control account is obtained from books of prime (original) entry and not from the sales ledger.

As informatiois for sales ledger control accounts is obtained from journals but not from ledgers. **X** [2]

## Examiner comment

No marks could be awarded for this answer. The candidate simply paraphrased the actual question: no attempt was made to answer the question.

## Question 2 (e)

## Mark scheme

$$(e) \quad \frac{22\,415}{275\,000} \text{ O/F} \times \frac{365}{1} = 29.75 \text{ days} = 30 \text{ days (1) O/F} \quad [2]$$

## Example candidate response – grade A

- (e) Using the closing balance on the sales ledger control account you prepared in (b) and the above information, calculate the debtors' collection period. Your answer should be rounded up to the next whole day.

Show your workings.

$$= \frac{\text{Debtors}}{\text{Credit Sales}} \times 365$$

$$= \frac{22\,415}{275\,000} \times 365 = 29.75 \text{ days} = 30 \text{ days} \quad [2]$$

Examiner comment

An excellent answer which was awarded full marks.

Example candidate response – grade C

- (e) Using the closing balance on the sales ledger control account you prepared in (b) and the above information, calculate the debtors' collection period. Your answer should be rounded up to the next whole day.

Show your workings.

$$\begin{array}{r}
 \text{Debtors} \times 21 \text{ days} \Rightarrow \frac{22\,493}{275\,000} \times 365 \\
 \text{Credit sales}
 \end{array}
 = 29.21 \text{ days}$$

= 29 days [2]

Examiner comment

Only half marks could be awarded to this answer. The candidate correctly used the own figure closing balance on the sales ledger control account and the figure given for credit sales, thus earning the first mark. Instead of multiplying by 365 days, the candidate multiplied by 21. No marks could be awarded for the resulting answer as it did not represent 2 days.

Example candidate response – grade E

- (e) Using the closing balance on the sales ledger control account you prepared in (b) and the above information, calculate the debtors' collection period. Your answer should be rounded up to the next whole day.

Show your workings.

$$\begin{array}{r}
 \text{Debtors} \times 365 \\
 \text{Credit sales}
 \end{array}
 = \frac{21\,860}{68\,860} \times 365$$

= 115.87

= 115 days [2]

Examiner comment

This was a very disappointing answer. The candidate gave the correct formula, but then used cheques received from debtors (\$21 860) as the numerator and the own figure closing balance on the sales ledger control account (\$68 860) as the denominator. No mark could be awarded for an own figure answer as it was not rounded up to the next whole day.



## Question 2 (f)

## Mark scheme

- (f) Offer cash discount for early payment  
 Charge interest on overdue accounts  
 Improve credit control  
 Refuse further supplies on credit until any outstanding balance is paid  
 Invoice discounting and debt factoring

Or other relevant points

**Any 3 points (1) each**

[3]

## Example candidate response – grade A

(f) Suggest three ways in which the collection period for debtors may be improved.

- (i) ..... charge an interest on any late payment by .....  
 ..... the debtors. ✓
- (ii) ..... offer to the debtors cash discount to encourage .....  
 ..... them to pay quickly. ✓
- (iii) ..... Refuse further supplies from debtors until the .....  
 ..... amount owing is paid. ✓ [3]

## Examiner comment

This was an excellent answer.

## Example candidate response – grade C

(f) Suggest three ways in which the collection period for debtors may be improved.




- (i) ..... by offering discounts so that her credit customers .....  
 ..... will pay on time and will pay quickly so as to get a discount. ✓
- (ii) ..... she can also offer a shorter period in which credit .....  
 ..... customers must have paid up their accounts. ✗
- (iii) ..... she can also offer specials for bulk buying and .....  
 ..... she can encourage payments by discounts and loyalty. [3] ✗

## Examiner comment

The candidate did not specifically use the words "cash discount," but clearly described a discount for quick payment, so a mark was awarded. The second comment was not regarded as a way in which the debtors' collection period could be improved. The final comment relating to bulk buying is not related to reducing the collection period.



Example candidate response – grade E

- (f) Suggest three ways in which the collection period for debtors may be improved.
- (i) Selling ~~goods~~ more goods on <sup>credit</sup> ~~credit~~ bases 
  - (ii) Allowing more cash ~~discount~~ <sup>trade</sup> discount 
  - (iii) Giving more days to customers to pay what they owe  [3]

Examiner comment




This was a very disappointing answer. Selling more goods on credit and allowing customers more days will not reduce the debtors' collection period. No mark was awarded for the comment relating to discount as this implied that offering either type of discount would improve the collection period.

Question 3 (a)

Mark scheme

- (a) (i) Nominal (general) ledger (1)
- (ii) Purchases ledger (1)
- (iii) Nominal (general) ledger (1) [3]

Example candidate response – grade A

- (a) Name the ledger in which **each** of the following accounts would appear.
- (i) Purchases returns account ..... Nominal ledger 
  - (ii) Ansari Stores account (a supplier) ..... Purchases ledger 
  - (iii) Sales account ..... Nominal ledger  [3]

Examiner comment

This was an excellent answer.

## Example candidate response – grade C

- (a) Name the ledger in which each of the following accounts would appear.
- (i) Purchases returns account Trading account ✗
- (ii) Ansari Stores account (a supplier) purchase ledger ✓
- (iii) Sales account Sales control account ✗ [3]

## Examiner comment

The candidate gained only one of the available marks. Purchases returns do appear in the trading account section of the income statement, but that is not the answer to the question being asked. The answer to Part (iii) was incorrect.

## Example candidate response – grade E

- (a) Name the ledger in which each of the following accounts would appear.
- (i) Purchases returns account Debited in Purchases ledger ✗
- (ii) Ansari Stores account (a supplier) Debited in Sales ledger ✗
- (iii) Sales account Debited in Sales ledger account ✗

## Examiner comment

This was a very disappointing answer. The candidate appears to have completely misunderstood the question. Purchases returns are debited in the purchases ledger and sales are debited in the sales ledger, but these are not the answers to the question asked. The answer to Part (ii) was incorrect.

Question 3 (b)

Mark scheme

(b)

		Karnail Singh Rent account			
		\$		\$	
2010				2009	
July 31	Total paid	1430	<b>(1)</b>	Aug 1	Balance b/d
	Balance c/d	420	<b>(1)</b>		
		<u>1850</u>		July 31	Income Statement <b>(1)</b> (Profit & Loss)
					<u>1590</u> <b>(1)</b>
					<u>1850</u>
				2010	
				Aug 1	Balance b/d
					420 <b>(1)O/F</b>

[6]

**Alternative presentation**

		Karnail Singh Rent account		
		Debit	Credit	Balance
		\$	\$	\$
2009				
Aug 1	Balance		260 <b>(1)</b>	260 Cr
2010				
July 31	Total paid	1430 <b>(1)</b>		1170 Dr
July 31	Income statement <b>(1)</b> (Profit & Loss)		1590 <b>(1)</b>	420 Cr <b>(2)C/F</b> <b>(1)O/F</b>

[6]

Example candidate response – grade A

Karnail Singh rents business premises. The rent is payable monthly in advance.

The rent for the financial year beginning 1 August 2009 was \$130 per month. This was increased to \$140 per month on 1 May 2010.

On 1 August 2009 two months' rent was outstanding.

During the financial year ended 31 July 2010 Karnail Singh paid rent totalling \$1430.

At 31 July 2010 three months' rent was outstanding.

**REQUIRED**

(b) Write up the rent account as it would appear in Karnail Singh's ledger for the year ended 31 July 2010.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 August 2010.

Where a three column running balance account is used the balance column should be up-dated after each transaction.

2010		Karnail Singh Rent account		2009	
31 July	Bank	1430	✓	1 August	bal b/d 260
	bal c/d	420	✓	31 July	P & L 1590
		1850			1850
				1 August	bal b/d 420
					[6]

Examiner comment

This was an excellent answer.



Example candidate response – grade C

Karnail Singh rents business premises. The rent is payable monthly in advance.

The rent for the financial year beginning 1 August 2009 was \$130 per month. This was increased to \$140 per month on 1 May 2010.

On 1 August 2009 two months' rent was outstanding.

During the financial year ended 31 July 2010 Karnail Singh paid rent totalling \$1430.

At 31 July 2010 three months' rent was outstanding.

**REQUIRED**

- (b) Write up the rent account as it would appear in Karnail Singh's ledger for the year ended 31 July 2010.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 August 2010.

Where a three column running balance account is used the balance column should be up-dated after each transaction.

Karnail Singh Rent account			
	\$		\$
		1 Aug (Owing) <del>X</del>	260
31st July 2010 (Bank) ✓	1430	1 Aug (Owing) <del>X</del>	260
1 Aug	260	31st July 2010 Outstanding	420
31st July 2010 (Owing) <del>X</del>	420	Profit and Loss ✓	1590
	1850		1850

[6]

Examiner comment

This was a moderate answer. The candidate lost marks for using incorrect descriptions for the balance brought down and the balance carried down: the word "owing" is not acceptable. The candidate failed to follow the instruction to bring down the closing balance, so the mark was lost.

Example candidate response – grade E

Karnail Singh rents business premises. The rent is payable monthly in advance.

The rent for the financial year beginning 1 August 2009 was \$130 per month. This was increased to \$140 per month on 1 May 2010.

On 1 August 2009 two months' rent was outstanding.

During the financial year ended 31 July 2010 Karnail Singh paid rent totalling \$1430.

At 31 July 2010 three months' rent was outstanding.

**REQUIRED**

(b) Write up the rent account as it would appear in Karnail Singh's ledger for the year ended 31 July 2010.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 August 2010.

Where a three column running balance account is used the balance column should be up-dated after each transaction.

Karnail Singh  
Rent account

	✓			
Jul 31 bank		1430	Aug 1 bank	260
			rent	420
			Jul 31 bank	420
			Aug Jul 31 balance	750
		1430		1430
Aug 1 balance		750		

[6]

Examiner comment

This was a very poor answer. The candidate correctly described the rent paid during the year, but also used the word "bank" for the opening balance. A figure of \$420 with the description of "bank" was incorrectly shown on the credit side. The expense for the year was not transferred to the income statement (profit and loss account). The balance on the account, \$420, should have been debited and brought down on the credit side.

## Question 3 (c)

## Mark scheme

- (c) The accruals (matching) principle states that revenue of the accounting period must be matched against the costs of the same period. (1)

The rent relating to the financial year ended 31 July 2010 is transferred to the income statement (profit and loss account). (1) The rent paid during the year relating to the previous year is not included but the rent owing at the end of the year is included. (1) [3]

## Example candidate response – grade A

- (c) Explain the accruals (matching) principle. Use the rent account you prepared in (b) to illustrate your answer.

The exact expense of the period is matched against the exact income of the same period, to get exact net profit or loss. From the amount paid we subtracted ~~prepa~~ unpaid opening and added unpaid closing to get exact expense for the period, charged to the profit & loss account. [3]

## Examiner comment

This was a very good answer.

## Example candidate response – grade C

- (c) Explain the accruals (matching) principle. Use the rent account you prepared in (b) to illustrate your answer.

The matching concept states that the revenue should be matched against the expenses of that period ~~disregard~~ ~~of~~ the date of payment. The rent transferred to the profit and loss account is that which was consumed for the period and does not include any adjustments for the payment made for last period's rent or the rent owing at the end of this period. [3]

## Examiner comment

This was a good answer. The candidate correctly explained the accruals (matching) principle and described how the rent for the year is transferred to the income statement (profit and loss account). The final mark was lost because of the last sentence which was not accurate.



## Example candidate response – grade E

- (c) Explain the accruals (matching) principle. Use the rent account you prepared in (b) to illustrate your answer.

Matching is when the ~~revenues~~ <sup>revenues</sup> of the accounting period are matched with the expenses of that same accounting period.

## Examiner comment

The candidate provided a satisfactory explanation of the accruals (matching) principle, but did not attempt to illustrate the answer with reference to the rent account prepared in the previous section.

## Question 3 (d)

## Mark scheme

**(d)** Bank manager

- Assessment of prospects of any requested loan/overdraft being repaid when due
- Assessment of prospects of any interest on loan/overdraft being paid when due
- Assessment of the security available to cover any loan/overdraft

## Lenders

- Assessment of prospects of any requested loan being repaid when due
- Assessment of prospects of any interest on loan being paid when due
- Assessment of the security available to cover any loan

## Creditor for goods

- Assessment of the liquidity position
- Identifying how long the business takes to pay creditors
- Identifying future prospects of the business
- Identifying what credit limit is reasonable

## Manager (if any)

- Assessment of past performance
- Basis of future planning
- Control the activities of the business
- Identifying areas where corrective action is required

Or other suitable interested persons e.g. employees, government bodies, competitors, take-over bidders etc

**TWO business people to be identified** (1) each

**ONE acceptable reason required in each case** (1) each

[4]



Example candidate response – grade A

(d) List two business people (excluding the owner) who would be interested in Karnail Singh's financial statements (final accounts).

In each case state one reason for that person's interest.

(i) Business person Bank manager  
 Reason for their interest insure security when providing loan that this loan will be paid when due. [2]

(ii) Business person Creditors  
 Reason for their interest would be interested to know how long the business takes to pay its creditors. [2]

Examiner comment

The candidate correctly identified two business people and provided suitable reasons for their interest in the financial statements.

Example candidate response – grade C

(d) List two business people (excluding the owner) who would be interested in Karnail Singh's financial statements (final accounts).

In each case state one reason for that person's interest.

(i) Business person ~~Accountant~~ Share holders  
 Reason for their interest As they have also invested in the company so they would like to see the financial position of that business [2]

(ii) Business person Competitor (similar business)  
 Reason for their interest To compare the business to see who is ahead, Profit comparison. [2]

Examiner comment

The candidate correctly identified competitors as having an interest in the financial statements and provided an acceptable reason. No marks were awarded for the other answer as this referred to shareholders. This is not an appropriate response to a question relating to the financial statements of a sole trader.

## Example candidate response – grade E

- (d) List **two** business people (excluding the owner) who would be interested in Karnail Singh's financial statements (final accounts).

In each case state **one** reason for that person's interest.

- (i) Business person .....

Reason for their interest They would want to compare their figures with Karnail Singh's to see if their business is earning more or less than her. [2]



- (ii) Business person .....

Reason for their interest They would want to learn new things in Karnail Singh's final accounts to see how business is ~~not~~ handled and how she obtained profits <sup>or debts</sup>. [2]

## Examiner comment

The first explanation would have been quite acceptable if competitors had been identified, but no marks could be awarded as the candidate failed to identify the business person. Examiners cannot make assumptions on what the candidate intended. No marks were awarded for the second part of the answer.

## Question 3 (e)

## Mark scheme

- (e) (i) Non-financial aspects

Accounts only record information which can be expressed in monetary terms. **(1)**

This means that there are many important factors which influence the performance of a business which will not appear in the financial statements (final accounts) e.g. quality of management, goodwill, skill of workforce etc. **(1)**

- (ii) Historical cost

Transactions are always recorded at the actual cost. **(1)**

This means that it can be difficult to compare transactions which have taken place at different times because of the effect of inflation. **(1)** **[4]**

## Example candidate response – grade A

- (e) A person studying the financial statements (final accounts) of a business must be aware that these statements do have limitations and will not provide a complete picture of the performance and position of a business.

State how **each** of the following may be regarded as a limitation of financial statements (final accounts).

- (i) Non-financial aspects

Financial concepts do not show non-monetary factors such as goodwill, skill and experience of work force or condition of fixed assets while these items highly affect business's success, performance and profitability. [2]

- (ii) Historical cost definite money value.

The only way to record business transactions and assets is by using actual cost price however comparing transactions taking place at different times may be misleading due to effect of inflation, for example in 2008 it would cost more to buy a machine identical to one bought in 2001 [Total: 20]

## Examiner comment

This was an excellent answer.



## Example candidate response – grade C

- (e) A person studying the financial statements (final accounts) of a business must be aware that these statements do have limitations and will not provide a complete picture of the performance and position of a business.

State how **each** of the following may be regarded as a limitation of financial statements (final accounts).

- (i) Non-financial aspects

Non financial aspects such as worker's <sup>experience</sup> ~~impact~~ has an impact on the business's <sup>profitability</sup>. Other non-financial aspects such as depreciation are things which <sup>can</sup> reduce the net profit of a business. [2]

- (ii) Historical cost

All transactions have to be entered in accounting books at their actual cost. ✓ However, this policy is limited because stock is valued at lower of cost or net <sup>gross</sup> realisable value. This has an effect on ~~net~~ profit. [2] ✗

## Examiner comment

The candidate provided a very good description of non-financial aspects, but failed to note the important point that these do not appear in the financial statements. It was correctly stated that all transactions are recorded at the actual cost, but the candidate failed to provide a satisfactory explanation on why this is a limitation.



## Example candidate response – grade E

- (e) A person studying the financial statements (final accounts) of a business must be aware that these statements do have limitations and will not provide a complete picture of the performance and position of a business.

State how **each** of the following may be regarded as a limitation of financial statements (final accounts).

- (i) Non-financial aspects

It goes on to uphold the business entity concept and monetary measure. Accounts only show transactions that affect the business in terms of monetary units and not the effort brought together to produce the outputs. [2]

- (ii) Historical cost

These do not show the costs a business would have incurred in the past for example advertisement cost. The accounts show the present cost only.

[2]

## Examiner comment

One mark was awarded for the statement that accounts only show transactions which can be recorded in monetary terms. The rest of the explanation was not regarded as adequate. The answer to the second part of the question indicated that the candidate had no understanding of the meaning and importance of the principle of historical cost.

Question 4 (a)

Mark scheme

(a) Authorised share capital is the maximum amount of share capital a company is allowed to issue.  
(2)

Paid-up share capital is the total amount of capital a company has received from its shareholders.  
(2) [4]

Example candidate response – grade A

4 The financial year of Searle Ltd ends on 31 August.

Searle Ltd has the following capital structure.

Authorised share capital	80 000 ordinary shares of \$0.50 each 40 000 4% preference shares of \$1 each
Paid-up share capital	60 000 ordinary shares of \$0.50 each 25 000 4% preference shares of \$1 each
Loan capital	\$15 000 3% debentures

During the year ended 31 August 2010 one year's preference share dividend was paid.

On 31 August 2010 one year's interest on debentures was accrued.

On 31 August 2010 the directors recommended the payment of an ordinary share dividend of 5%.

**REQUIRED**

(a) Explain the difference between authorised share capital and paid-up share capital.

Authorised share capital is the maximum number of shares  
the company is allowed to issue

paid-up capital is the amount paid by the shareholders  
when the company calls-up capital

[4]

Examiner comment

This was a very good answer which gained full marks.

## Example candidate response – grade C

- 4 The financial year of Searle Ltd ends on 31 August.

Searle Ltd has the following capital structure.

Authorised share capital	80 000 ordinary shares of \$0.50 each 40 000 4% preference shares of \$1 each
Paid-up share capital	60 000 ordinary shares of \$0.50 each 25 000 4% preference shares of \$1 each
Loan capital	\$15 000 3% debentures

During the year ended 31 August 2010 one year's preference share dividend was paid.

On 31 August 2010 one year's interest on debentures was accrued.

On 31 August 2010 the directors recommended the payment of an ordinary share dividend of 5%.

**REQUIRED**

- (a) Explain the difference between authorised share capital and paid-up share capital.

Authorised share capital refers to the maximum amount of shares  
that can be issued as specified in the memorandum of association.  
The <sup>authorised</sup> share capital contains both ordinary shares and preference shares and is  
recorded at Nominal value. Paid-up share capital is also known as  
issued share capital. This refers to the proportion of authorised  
share capital that has been issued to shareholders. **X** [4]

**Examiner comment**

The candidate provided an acceptable description of authorised capital which gained full marks. A correct description of issued share capital was provided, but this did not answer the question which related to paid-up share capital and so no marks could be awarded.



## Example candidate response – grade E

- 4 The financial year of Searle Ltd ends on 31 August.

Searle Ltd has the following capital structure.

Authorised share capital	80 000 ordinary shares of \$0.50 each 40 000 4% preference shares of \$1 each
Paid-up share capital	60 000 ordinary shares of \$0.50 each 25 000 4% preference shares of \$1 each
Loan capital	\$15 000 3% debentures

During the year ended 31 August 2010 one year's preference share dividend was paid.

On 31 August 2010 one year's interest on debentures was accrued.

On 31 August 2010 the directors recommended the payment of an ordinary share dividend of 5%.

**REQUIRED**

- (a) Explain the difference between authorised share capital and paid-up share capital.

authorised share capital = This is the  
 estimated number of shares which  
 they will receive. X

paid-up share Capital = This is the  
 amount actually received. X

[4]

## Examiner comment

This was a very disappointing answer for which no marks could be awarded. The candidate appears to have no understanding of the capital of a limited liability company.



Question 4 (b)

Mark scheme

(b) (i)  $4\% \times 25\,000$  shares of \$1 each (1) = \$1000 (1)

(ii)  $3\% \times \$15\,000$  (1) = \$450 (1)

(iii)  $5\% \times 60\,000$  shares of \$0.50 (1) = \$1500 (1)

[6]

Example candidate response – grade A

(b) Calculate the following. Show your workings.

(i) Dividend paid on preference shares (in \$)

$$\frac{4}{100} \times \$25\,000 = \$1\,000$$

[2]

(ii) Interest payable on debentures (in \$)

$$\frac{3}{100} \times \$15\,000 = \$450$$

[2]

11

(iii) Dividend to be paid on ordinary shares (in \$)

$$600\,000 \times 0.50 = \$300\,000$$

$$\frac{5}{100} \times \$300\,000 = \$15\,000$$

[2]

Examiner comment

This was a good answer. The candidate successfully calculated the preference share dividend and the ordinary share dividend and gained full marks for these. The correct formula was applied for the calculation of the debenture interest, but a careless error resulted in an incorrect answer being shown.

## Example candidate response – grade C

(b) Calculate the following. Show your workings.

(i) Dividend paid on preference shares (in \$)

$$\frac{4 \times 25000}{100} = \$1000$$

(ii) Interest payable on debentures (in \$)

$$\frac{3 \times 15000}{100} = 450$$

$$15000 - 450 = \$14550$$

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11

(iii) Dividend to be paid on ordinary shares (in \$)

$$\frac{60000 \times 0.50}{100} = \$30000$$

## Examiner comment

This was a moderate answer. The candidate earned full marks for the calculation of the preference share dividend. A mark was awarded for the calculation of the debenture interest, but the final mark was lost as the candidate introduced an extraneous item by deducting the interest from the actual debenture. No marks were awarded for the calculation of the ordinary share dividend as only the total value of the ordinary share capital was given.

Example candidate response – grade E

(b) Calculate the following. Show your workings.

(i) Dividend paid on preference shares (in \$)

$$\frac{40,000 \times 4}{100} = 1600 \qquad \frac{25000 \times 4}{100} = 1000$$

**X** [2]

(ii) Interest payable on debentures (in \$)

$$\frac{15,000 \times 3}{100} = 450$$

[2]

11

(iii) Dividend to be paid on ordinary shares (in \$)

$$\frac{80,000 \times 5}{100} = 4000 \qquad \frac{60000 \times 5}{100} = 3000$$

$$\underline{8000} \qquad \underline{6000} \quad [2]$$

Examiner comment

Full marks were earned for the calculation of the debenture interest. No marks could be awarded for the calculation of either the preference share dividend or the ordinary share dividend. In each case an alternate answer was provided (calculating the dividend on both the authorised and the issued capital). The examiner is not prepared to select the correct answer when alternatives are given.

Question 4 (c)

Mark scheme

(c)

	Income Statement Profit & Loss Account	Appropriation Account	Balance Sheet	
Debenture interest payable	✓	No entry	✓	(2)
Ordinary share dividend payable	No entry	✓	✓	(2)

[4]

Example candidate response – grade A

(c) Complete the following table to indicate where each of the following should appear in the financial statements (final accounts) of Searle Ltd for the year ended 31 August 2010. If the item does not appear write "No entry".

The first has been completed as an example.

	Income statement (profit and loss account)	Appropriation account	Balance sheet
Preference share dividend paid	No entry	✓	No entry
Debenture interest payable	✓	No entry	No entry
Ordinary share dividend payable	No entry	✓	✓

[4]

Examiner comment

This was a good answer. The only error was stating that debenture interest payable would not appear in the balance sheet.

Example candidate response – grade C

(c) Complete the following table to indicate where each of the following should appear in the financial statements (final accounts) of Searle Ltd for the year ended 31 August 2010. If the item does not appear write "No entry".

The first has been completed as an example.

	Income statement (profit and loss account)	Appropriation account	Balance sheet
Preference share dividend paid	No entry	✓	No entry
Debenture interest payable	no entry	no entry	✓
Ordinary share dividend payable	no entry	✓	no entry

[4]

Examiner comment

This answer gained half of the available marks. In each case, the candidate incorrectly stated that no entry would be made in the balance sheet.



Example candidate response – grade E

(c) Complete the following table to indicate where each of the following should appear in the financial statements (final accounts) of Searle Ltd for the year ended 31 August 2010. If the item does not appear write "No entry".

The first has been completed as an example.

	Income statement (profit and loss account)	Appropriation account	Balance sheet
Preference share dividend paid	No entry	✓	No entry
Debenture interest payable	✓	✓	No entry
Ordinary share dividend payable	✓	✓	✓

[4]

Examiner comment

A mark was gained for indicating that the dividend payable would appear in the balance sheet. The candidate should have known that the debenture interest and the share dividend do not appear in both the income statement (profit and loss account) and the appropriation account.

Question 4 (d)

Mark scheme

(d)	\$		
Ordinary share capital	30 000		
Preference share capital	25 000		
Debentures	<u>15 000</u>		
	<u>70 000</u>	(1)	[1]

Example candidate response – grade A

(d) Calculate the capital employed on 31 August 2010.

Show your workings.

$$\begin{aligned}
 \text{capital employed} &= \text{capital} + \text{long term liabilities} \\
 &= \text{ordinary share capital} + \text{preference share capital} + \text{debenture} \\
 &= 30\,000 + 25\,000 + 15\,000 \\
 &= \$ 70\,000
 \end{aligned}$$

[1]



Example candidate response – grade A

- (e) Using a net profit figure of \$11 840, calculate the return on capital employed (ROCE). The calculation should be correct to two decimal places.

Show your workings.

$$\frac{\text{Net Profit} \times 100}{\text{Capital}} = \frac{11840 \times 100}{55000} = 21.53\%$$

[2]

Examiner comment

The candidate earned full marks for this question by correctly calculating the return on capital employed (ROCE) using the capital employed calculated in the previous part of the question.

Example candidate response – grade C

- (e) Using a net profit figure of \$11 840, calculate the return on capital employed (ROCE). The calculation should be correct to two decimal places.

Show your workings.

$$\text{ROCE} = \frac{\text{Net Profit} \times 100}{\text{Capital employed}} = \frac{11840 \times 100}{72150} = 16.41\%$$

[2]

Examiner comment

The candidate correctly calculated the return on capital employed (ROCE) using the capital employed calculated in the previous part of the question. The candidate failed to follow the instruction to show the answer correct to two decimal places, so the final mark was lost.

Example candidate response – grade E

- (e) Using a net profit figure of \$11 840, calculate the return on capital employed (ROCE). The calculation should be correct to two decimal places.

Show your workings.

$$\text{ROCE} = \frac{\text{Cost of Sales}}{\text{Avg. Stock}}$$

[2]

### Examiner comment

This was a disappointing answer. The candidate appeared not to know the formula for the return on capital employed (ROCE) and so was not able to attempt a calculation. An attempt was made to calculate the capital employed in the previous section of the question, but the candidate clearly failed to see the link between the two sections.

### Question 4 (f)

#### Mark scheme

- (f) If the return on capital employed increases it indicates that the company is employing its resources more efficiently. (2)

[2]

#### Example candidate response – grade A

- (f) Explain why the directors of Searle Ltd will be pleased that the return on capital employed (ROCE) is higher than at the end of the previous financial year.

Because it means managers/directors have run the business more efficiently and are therefore able to make more profit from the capital employed. [2]

[Total: 19]

### Examiner comment

This was a very good answer.

#### Example candidate response – grade C

- (f) Explain why the directors of Searle Ltd will be pleased that the return on capital employed (ROCE) is higher than at the end of the previous financial year.

Because this shows an increase in the profit and controlling more on the expenses of the company. [2]

### Examiner comment

This was a disappointing answer. The candidate mistakenly believed that the increase in return on capital employed (ROCE) was solely due to an increase in profit resulting from increased control over expenses.



Example candidate response – grade E

(f) Explain why the directors of Searle Ltd will be pleased that the return on capital employed (ROCE) is higher than at the end of the previous financial year.

to be better liquidity than the previous years.  
~~and to these~~

[2]

Examiner comment

This candidate did not appear to understand the concept of return on capital employed (ROCE) and believed that it was linked to liquidity.

Question 5 (a)

Mark scheme

(a) To compensate for the fact that she does more work than Samuel.

Or

To recognise the work that she does in the partnership.

[2]

Example candidate response – grade A

(a) Suggest one reason why Martha Mavuso wishes to amend the partnership agreement.

Maybe Martha is doing more work so that she requires  
 an annual salary in addition to her profit share.

[2]

Examiner comment

This was a good answer which earned full marks.

Example candidate response – grade C

(a) Suggest one reason why Martha Mavuso wishes to amend the partnership agreement.

The partnership agreement must include all rights and liabilities of partners so that as to avoid disagreements and conflicts later on.

[2]

X

Examiner comment

This candidate made a correct statement about the contents and advantages of a partnership agreement, but this was not the answer to the question asked. No marks could be awarded.

Example candidate response – grade E

(a) Suggest one reason why Martha Mavuso wishes to amend the partnership agreement.

So she can recieve an annual partnership  
Salary X

[2]

Examiner comment

Candidates were informed that the partner wanted to change the partnership agreement so that she could receive an annual partnership salary. This candidate simply repeated the information which was provided.

Question 5 (b)

Mark scheme

(b)	Samuel and Martha Mavuso Balance Sheet at 31 October 2010		
	\$	\$	\$
Non-current (fixed) assets at cost			105 950
Less Provision for depreciation			<u>9 350</u>
			96 600 <b>(1)</b>
Current assets		23 562	
Less Current liabilities		<u>18 400</u>	
Working capital (net current assets)			<u>5 162</u> <b>(1)</b>
			101 762
Financed by			
	Samuel	Martha	Total
	Mavuso	Mavuso	
Capital accounts	<u>60 000</u>	<u>40 000</u> <b>(1)</b>	100 000
Current accounts			
Opening balance	(1 091)	223 <b>(1)</b>	
Interest on capital	2 400	1 600 <b>(1)</b>	
Share of profit	<u>4 122</u>	<u>2 748</u> <b>(1)</b>	
	<u>5 431</u>	<u>4 571</u>	
Less Drawings	3 100	4 900 <b>(1)</b>	
Interest on drawings	<u>93</u>	<u>147</u> <b>(1)</b>	
	<u>3 193</u>	<u>5 047</u>	
	<u>2 238</u>	<u>(476)</u> <b>(1)O/Fs</b>	
			<u>1 762</u>
			101 762 <b>(1)O/F</b>

Horizontal format acceptable

Calculation of current account balances outside balance sheet acceptable if presented in the form of ledger accounts [10]

## Example candidate response – grade A

On 1 November 2009 the balances on the partners' capital and current accounts were:

	Capital account \$	Current account \$
Samuel Mavuso	60 000	1 091 debit
Martha Mavuso	40 000	223 credit

During the year ended 31 October 2010 the partners made the following drawings:

	\$
Samuel Mavuso	3 100
Martha Mavuso	4 900

The following information was extracted from the profit and loss appropriation account for the year ended 31 October 2010.

Profit for the year (net profit)		\$	\$
Interest charged on drawings	Samuel Mavuso	93	
	Martha Mavuso	<u>147</u>	<u>240</u>
			10 870
Interest allowed on capital	Samuel Mavuso	2 400	
	Martha Mavuso	<u>1 600</u>	<u>4 000</u>
Profit available for distribution			6 870

On 31 October 2010 the following information was available.

	\$
Non-current (fixed) assets at cost	105 950
Provision for depreciation of non-current (fixed) assets	9 350
Current assets	23 562
Current liabilities	18 400

**REQUIRED**

- (b) Prepare the balance sheet of Samuel and Martha Mavuso at 31 October 2010. The capital and current account of each partner should be shown.

The calculation of the current account balances may either be shown within the balance sheet or as separate ledger accounts.

Use the space below for your workings.

Samuel and Martha Mavuso  
Balance Sheet at 31. October 2010

For  
Examiner's  
Use

Fixed Assets		financed by:	
fixed assets at cost	105 950	Capital: Samuel	60 000
less Provision for depreciation	9350	Martha <del>Martha</del>	40 000
	96600		100 000
Current Assets		current accounts	
current assets	235 062	Samuel	Martha
		balance b/d	1091 (223)
		Interest on	
		Capital	2400 1600
		Share of	
		profits	3435 3435
			6926 4812
		drawings	3100 4900
		Interest on	
		drawings	93 147
			3733 (235) 3498
			<small>OFR</small>
	120 162		103 698 <small>OFR</small>

[10]

Examiner comment

This was a good answer. The candidate elected to show the details of the current accounts within the balance sheet, which was perfectly acceptable. Only two errors were made. The first error was to share the profit equally instead of in proportion to the capital invested, but the final balances on the current accounts were correct on the candidate's own figures. The second error was to omit the current liabilities, which also meant that the net current assets (working capital) was omitted.



## Example candidate response – grade C

On 1 November 2009 the balances on the partners' capital and current accounts were:

	Capital account	Current account
	\$	\$
Samuel Mavuso	60 000	1 091 debit
Martha Mavuso	40 000	223 credit

During the year ended 31 October 2010 the partners made the following drawings:

	\$
Samuel Mavuso	3 100
Martha Mavuso	4 900

The following information was extracted from the profit and loss appropriation account for the year ended 31 October 2010.

Profit for the year (net profit)		\$	\$
			10 630
Interest charged on drawings	Samuel Mavuso	93	
	Martha Mavuso	<u>147</u>	<u>240</u>
			10 870
Interest allowed on capital	Samuel Mavuso	2 400	
	Martha Mavuso	<u>1 600</u>	<u>4 000</u>
Profit available for distribution			6 870

On 31 October 2010 the following information was available.

	\$
Non-current (fixed) assets at cost	105 950
Provision for depreciation of non-current (fixed) assets	9 350
Current assets	23 562
Current liabilities	18 400

**REQUIRED**

- (b) Prepare the balance sheet of Samuel and Martha Mavuso at 31 October 2010. The capital and current account of each partner should be shown.

The calculation of the current account balances may either be shown within the balance sheet or as separate ledger accounts.

Use the space below for your workings.

Samuel and Martha Mavuso  
Balance Sheet at 31 October 2010

For  
Examin  
Use

Fixed Assets	Cost	Depr.	NBV ✓
Fixed Assets	10 590	9 350	9 660
Current Assets	23 562		
Current Liabilities	(18 400)		
Working capital		5 162 ✓	
<del>Capital</del>			9 143.8 ✓
<del>Drawings</del>			8 000

Current Accounts

	Samuel	Martha		Samuel	Martha
Balance b/d	1091		Balance b/d	10630	10630 ✓
Net Profit				93	147 ✓
<del>Drawings</del>	3100	4900	Int on Drawing	2400	1600 ✓
balance c/d	8932	7700			
	13123	12600		13123	12600
			balance b/d	8932	7700

[10]

Examiner comment

This was a moderate answer. The candidate elected to calculate the current account balances using ledger accounts outside the balance sheet, which was perfectly acceptable. The opening balances and interest on capital were correctly entered. The interest on drawings was on the wrong side of the accounts. No entry was made for profit shares. Drawings were correctly entered, but the mark was lost as this item also appeared in the balance sheet. The first section of the balance sheet was wholly correct. No attempt was made to show the "financed by" section (apart from the incorrectly showing drawings).

## Example candidate response – grade E

On 1 November 2009 the balances on the partners' capital and current accounts were:

	Capital account \$	Current account \$
Samuel Mavuso	60 000	1 091 debit
Martha Mavuso	40 000	223 credit

During the year ended 31 October 2010 the partners made the following drawings:

	\$
Samuel Mavuso	3 100
Martha Mavuso	4 900

The following information was extracted from the profit and loss appropriation account for the year ended 31 October 2010.

Profit for the year (net profit)		\$	\$
Interest charged on drawings	Samuel Mavuso	93	
	Martha Mavuso	<u>147</u>	<u>240</u>
			10 870
Interest allowed on capital	Samuel Mavuso	2 400	
	Martha Mavuso	<u>1 600</u>	<u>4 000</u>
Profit available for distribution			6 870

On 31 October 2010 the following information was available.

	\$
Non-current (fixed) assets at cost	105 950
Provision for depreciation of non-current (fixed) assets	9 350
Current assets	23 562
Current liabilities	18 400

**REQUIRED**

- (b) Prepare the balance sheet of Samuel and Martha Mavuso at 31 October 2010. The capital and current account of each partner should be shown.

The calculation of the current account balances may either be shown within the balance sheet or as separate ledger accounts.

Use the space below for your workings.



Samuel and Martha Mavuso  
Balance Sheet at 31 October 2010

For  
Examiner  
Use

Capital account, Samuel Mavuso Martha Mavuso			
fixed assets			105 950
<del>Car.</del> provision			93 50
			115 300 X
Current Assets		23 562	
less: Current liabilities		(18 400)	
	X		51 62
			120 462
financed by			
Capital account - Samuel		+60 000 ✓	
- Martha		40 000	
			104 000
X add: Net profit			10 630
			114 630
X less: Drawings - Samuel		3193	
		3100	
Martha		5047	
		4900	
			82 40
			106 390 ✓

Examiner comment

A mark was lost for the careless error of adding rather than deducting the depreciation. The net current assets (working capital) were not labelled. The capital accounts of the partners were correctly shown (although not totalled correctly). The candidate did not realise that in the balance sheet of a partnership it is necessary to show the current accounts. It is not acceptable to show the total profit. The figures for drawings represented the drawings and the interest on drawings. These should have been deducted from each partner's current account. No marks could be awarded for the workings as these were merely calculations and did not represent current accounts.



Question 5 (c)

Mark scheme

(c) 23 562 : 18 400 (1) = 1.28 : 1 (1)

[2]

Example candidate response – grade A

(c) Using the above information, calculate the current ratio of Samuel and Martha Mavuso. The calculation should be correct to two decimal places.

Show your workings.

$$\begin{array}{l} \text{Current Assets : Current Liabilities} \\ 23\ 562 : 18\ 400 \\ 1.28 : 1 \end{array} \quad \checkmark \checkmark \quad [2]$$

Examiner comment

This was a very good answer which gained full marks.

Example candidate response – grade C

(c) Using the above information, calculate the current ratio of Samuel and Martha Mavuso. The calculation should be correct to two decimal places.

Show your workings.

$$\begin{array}{l} \text{Current Assets} \Rightarrow \frac{23\ 562}{18\ 400} = 1.28 \\ \text{Current Liabilities} \\ 1 : 1.28 \end{array} \quad \checkmark \quad \times \quad [2]$$

Examiner comment

The candidate used the correct figures for the calculation of the current ratio, but then failed to express the answer correctly. The ratio should have been expressed as 1.28:1 (not 1:1.28).

Example candidate response – grade E

(c) Using the above information, calculate the current ratio of Samuel and Martha Mavuso. The calculation should be correct to two decimal places.

Show your workings.

$$\begin{array}{l} \text{Current Liabilities} = 18\ 400 \\ \text{Current Assets} = 23\ 562 \\ 0.78 : 1 \end{array} \quad \times \quad \times \quad [2]$$

### Examiner comment

This was a disappointing answer. The candidate attempted to divide the current liabilities by the current assets. The mark scheme indicated that only a correct figure was acceptable for the answer, so the candidate lost all the available marks.

### Question 5 (d)

#### Mark scheme

- (d) Injection of capital  
 Long term loan  
 Sale of surplus non-current (fixed) assets  
 Reduction in drawings

**Or other suitable points**

**Any 2 points (1) each**

[2]

#### Example candidate response – grade A

(d) Explain **two** ways in which their working capital could be improved.

- (i) *By obtaining a long term loan* ✓
- (ii) *By selling old unused fixed assets.* ✓
- [2]

#### Examiner comment

This was a good answer.

#### Example candidate response – grade C

(d) Explain **two** ways in which their working capital could be improved.

- (i) *By reducing drawings* ✓
- (ii) *By reducing expenses* ✗
- [2]

#### Examiner comment

This was a moderate answer. The candidate correctly stated that reducing drawings could improve the working capital. Reducing expenses will not automatically increase working capital: it is only an increase in the amount of profit actually retained which can increase the working capital.

## Example candidate response – grade E

(d) Explain two ways in which their working capital could be improved.

- (i) He could increase the number of current Assets. X
- (ii) He could reduce the number of current liabilities. X [2]

## Examiner comment

This was a poor answer. It was not sufficient to state that the working capital would increase if the current assets increase and the current liabilities decrease. Candidates were expected to state how these changes could be achieved.

## Question 5 (e)

## Mark scheme

(e) Does not include inventory (stock) in the calculation. (1)

**Either**

Inventory (stock) is not regarded as a liquid asset – a buyer has to be found and then the money collected. Some goods may prove to be unsaleable. (1)

**Or**

The quick ratio shows whether the business would have any surplus liquid funds if all the current liabilities were paid immediately from the liquid assets. (1) [2]

## Example candidate response – grade A

(e) Explain why the quick ratio is a more reliable indicator of liquidity than the current ratio.

The stock is deducted from the current assets ✓  
 as stock ~~is~~ <sup>is not</sup> liquid. i.e. it cannot be easily ✓  
 converted to cash to be used for immediate  
 expense. [2]

## Examiner comment

This was a very good answer which gained full marks.

## Example candidate response – grade C

- (e) Explain why the quick ratio is a more reliable indicator of liquidity than the current ratio.

Because the closing stock is deducted and then assets are equated to liabilities alone.

[2]

## Examiner comment

The candidate correctly stated that the quick ratio excludes closing inventory (stock), but failed to provide further explanation on why the quick ratio is more reliable.

## Example candidate response – grade E

- (e) Explain why the quick ratio is a more reliable indicator of liquidity than the current ratio.

As ~~Current~~ Quick Ratio shows how fast these Current assets can be converted into Cash.

[2]

## Examiner comment

This candidate failed to distinguish between the current ratio and the quick ratio and did not attempt to explain why the quick ratio is more reliable.

## Question 6 (a)

## Mark scheme

- (a) Gross profit = 247 600 – 163 100 = 84 500 (1)

$$\frac{84\,500}{247\,000} \times \frac{100}{1} = 34.13\% \text{ (1)}$$

[2]



Example candidate response – grade A

- (a) Calculate the percentage of gross profit to sales. The calculation should be correct to two decimal places.

Show your workings.

$$\begin{aligned} \text{Gross Profit} &= \text{Sales} - \text{Cost of sales} \\ &= 247600 - 163100 = 84500 \\ \frac{\text{Gross Profit}}{\text{Sales}} \times 100 &= \frac{84500}{247600} \times 100 = 34,13\% \end{aligned}$$

Examiner comment

This was an excellent answer which was awarded full marks.

Example candidate response – grade C

- (a) Calculate the percentage of gross profit to sales. The calculation should be correct to two decimal places.

Show your workings.

$$\begin{aligned} \frac{\text{Gross profit} \times 100}{\text{Sales}} &= \frac{84500 \times 100}{247600} \\ &= 34,13\% \end{aligned}$$

Examiner comment

The candidate knew the formula and used the correct figures, which earned the first mark. The final mark was lost because of a careless error when a dollar sign was inserted in front of the answer.

Example candidate response – grade E

- (a) Calculate the percentage of gross profit to sales. The calculation should be correct to two decimal places.

Show your workings.

$$\begin{aligned} \frac{\text{Gross Profit} \times 100}{\text{Sales}} &= \\ \frac{1.63100 \times 100}{247600} &= \end{aligned}$$

### Examiner comment

The candidate demonstrated knowledge of the formula for the calculation of the percentage of gross profit to sales, but was unable to insert the appropriate figures. As there was no attempt at a calculation, the final mark was automatically lost.

### Question 6 (b)

#### Mark scheme

- (b) Increase in selling prices  
 Obtaining cheaper supplies  
 Reduction the rate of trade discount allowed to customers  
 Increase in the rate of trade discount received from suppliers  
 Passing on increased costs to customers  
 Different product mix

#### Or other suitable reasons

Any 2 points (2) each

[4]

#### Example candidate response – grade A

- (b) Suggest two reasons why the percentage of gross profit to sales is greater than it was at the end of the previous financial year.

- (i) He may have purchased goods from cheaper suppliers. <sup>i.e.</sup> lower cost of sales. ✓
- (ii) He may have changed a higher selling price on customers. ✓ [4]

### Examiner comment

This was a very good answer.

#### Example candidate response – grade C

- (b) Suggest two reasons why the percentage of gross profit to sales is greater than it was at the end of the previous financial year.

- (i) because she must ~~set~~ be buy from a cheaper supplier. ✓
- (ii) she ~~not~~ sell cheaper than the previous years. ✗ [4]

Examiner comment

The first answer was correct. The second answer was incorrect. A reduction in the selling price will not result in a higher gross profit to sales percentage.

Example candidate response – grade E

(b) Suggest two reasons why the percentage of gross profit to sales is greater than it was at the end of the previous financial year.

(i) more sales may have been made **X**

(ii) less purchases may have been bought **X**

[4]

Examiner comment

This was a completely incorrect answer. The candidate made the mistake of concentrating on quantities of sales and purchases. The percentage of gross profit to sales is affected by the selling price and the purchase price: it is not affected by the quantities.

Question 6 (c)

Mark scheme

		Waseem Shah Suspense account			
		\$		\$	
2010			2010		
July 31	Bank	1520	(1)	July 31	Difference on trial balance
					1240
					(1)
					Rent
					90
					(1)
					Balance c/d
					190
					(1)
		1520			1520
2010					
Aug 1	Balance b/d	190	(1)O/F		
					[5]

Alternative presentation

		Waseem Shah Suspense account			
		Debit	Credit	Balance	
2010\$		\$	\$		
July 31	Difference on trial balance		1240	(1)	1240 Cr
	Rent		90	(1)	1330 Cr
	Bank	1520	(1)		190 Dr
					(2)C/F
					(1)O/F
					[5]

Example candidate response – grade A

After the preparation of the draft financial statements (final accounts) the following errors were discovered.

- 1 Rent paid, \$650, was correctly recorded in the cash book but had been entered in the rent account as \$560.
- 2 \$860 paid by cheque to M Ali had been debited to the account of J Ali.
- 3 Repairs to machinery, \$1150, had been entered in the machinery account.
- 4 The bank overdraft, \$1520, had been omitted from the trial balance.

**REQUIRED**

- (c) Prepare the suspense account in Waseem Shah’s ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional “T” account is used it should be balanced and the balance brought down. If there is no balance the account should be totalled.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Waseem Shah  
Suspense account

Date	Details	£	Date	Details	£
	Bank	1520 ✓		Trial Balance	1240 ✓
				Rent	90 ✓
				Bal b/d	190 ✓
		1520			1520
	Bal b/d	X			[5]

Examiner comment

This was a very good answer. The figure for the balance brought down was omitted, but that was the only error.



Example candidate response – grade C

After the preparation of the draft financial statements (final accounts) the following errors were discovered.

- 1 Rent paid, \$650, was correctly recorded in the cash book but had been entered in the rent account as \$560.
- 2 \$860 paid by cheque to M Ali had been debited to the account of J Ali.
- 3 Repairs to machinery, \$1150, had been entered in the machinery account.
- 4 The bank overdraft, \$1520, had been omitted from the trial balance.

**REQUIRED**

- (c) Prepare the suspense account in Waseem Shah’s ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional “T” account is used it should be balanced and the balance brought down. If there is no balance the account should be totalled.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Waseem Shah  
Suspense account

Rent	90	✗	Balance b/d	1240	✓
Balance f/d	2670	✗	Bank overdraft	1520	✗
	2760			2760	
			Balance b/d	2670	OFR ✓
[5]					

Examiner comment

The opening balance was correctly shown, but the entries for rent and bank were on the wrong sides of the account. However, the candidate did balance the account and carry the balance down, which earned an own figure mark.

Example candidate response – grade E

After the preparation of the draft financial statements (final accounts) the following errors were discovered.

- 1 Rent paid, \$650, was correctly recorded in the cash book but had been entered in the rent account as \$560.
- 2 \$860 paid by cheque to M Ali had been debited to the account of J Ali.
- 3 Repairs to machinery, \$1150, had been entered in the machinery account.
- 4 The bank overdraft, \$1520, had been omitted from the trial balance.

**REQUIRED**

(c) Prepare the suspense account in Waseem Shah’s ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional “T” account is used it should be balanced and the balance brought down. If there is no balance the account should be totalled.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Waseem Shah  
Suspense account

Cash Book	90	✗	Machinery Ac	1150	✗
Balance c/d	1920	✗	M Ali	<del>860</del> 430	✗
			J Ali	430	✗
	2,010			2,010	
			Balance b/d	1,920	✓

(5) DFR

Examiner comment

The opening balance and item number one were omitted. The description “cash book” was not regarded as adequate (the word “bank” should have been used). Entries were made for Items two and three, but these should not have been included in the suspense account. The candidate balanced the account and carried down the balance and so earned an own figure mark.

Question 6 (d)

Mark scheme

(d) Either

Error Number 2 (1)

Explanation This is an error of commission (1) and does not affect the balancing of the trial balance (1)

Or

Error Number 3 (1)

Explanation This is an error of principle (1) and does not affect the balancing of the trial balance (1) [3]

Example candidate response – grade A

(d) Select one of the errors 1– 4 above which has not been corrected by an entry in the suspense account. Explain why an entry in the suspense account was not necessary.

Error ..... number 2. ✓

Explanation ..... As it is error of commission which doesn't affect the trial balance agreement. ✓ [3]

Examiner comment

This was an excellent answer.

Example candidate response – grade C

(d) Select one of the errors 1– 4 above which has not been corrected by an entry in the suspense account. Explain why an entry in the suspense account was not necessary.

Error ..... number 2. ✓ - \$ 860 paid by cheque to M Ali had been debited to the account of J Ali.

Explanation ..... because it is in the wrong name of account M Ali and J Ali this does not change any figures but just the name of the account. [3]



Examiner comment

The candidate correctly identified the second error as being one which was not corrected by an entry in the suspense account. No marks could be awarded for the explanation as it did not provide a satisfactory explanation.

Example candidate response – grade E

(d) Select one of the errors 1– 4 above which has not been corrected by an entry in the suspense account. Explain why an entry in the suspense account was not necessary.

Error Bank overdraft. \$1520, had been omitted  
from the trial balance

Explanation This error does not affect the trial balance because  
it had not been entered in it. It is an error of omission [3]

Examiner comment

This was a very disappointing answer. The candidate incorrectly stated that the omission of the bank overdraft from the trial balance would not affect the suspense account. This error meant that the marks for the explanation were also lost.

Question 6 (e)

Mark scheme

(e)

Waseem Shah

Statement of corrected profit for the year ended 31 July 2010

			\$	
			33 000	
Profit for the year (net profit) before corrections				
	Increase in profit \$	Decrease in profit \$		
Error 1		90		
2	No effect (2)			
3		1 150 (2)		
4	No effect (2)			
	_____	_____	1 240	
		_____	1 240	
Corrected profit for the year			<u>31 760</u> (1)O/F	[7]



Example candidate response – grade A

(e) Prepare a statement to show the effect of correcting errors 1– 4 on the original profit for the year (net profit) and calculate the corrected profit for the year.

If the error does not affect the profit for the year (net profit) write “No effect”.

The first correction has been completed as an example.

Waseem Shah  
Statement of corrected profit for the year ended 31 July 2010

	Increase in profit \$	Decrease in profit \$	\$
Profit for the year (net profit) before corrections			33 000
	\$	\$	
Error 1		90	
2	No effect	<del>90</del>	
3		1150	
4	No effect	<del>90</del>	
	<u>0</u>	<u>1150</u>	
Corrected profit for the year			<u>1150</u> <u>31850</u>

[7]

Examiner comment

This was a very good answer. There was only one error in the answer. The candidate omitted the figure of \$90 (shown in the decrease column) in the calculation. This resulted in the loss of mark for the corrected profit for the year.

Example candidate response – grade C

(e) Prepare a statement to show the effect of correcting errors 1– 4 on the original profit for the year (net profit) and calculate the corrected profit for the year.

If the error does not affect the profit for the year (net profit) write “No effect”.

The first correction has been completed as an example.

Waseem Shah  
Statement of corrected profit for the year ended 31 July 2010

	\$	
Profit for the year (net profit) before corrections	33 000	
	Increase in profit \$	Decrease in profit \$
Error 1	<del>90</del>	90
2	No effect	<del>1150</del>
3		No effect
4	—	1150
	—	1 240
Corrected profit for the year	31 760	1 240

[7]

Examiner comment

The candidate made the correct entry for error two, but made incorrect entries for errors three and four. The corrected profit for the year was arithmetically correct on the candidate’s figures and so was awarded an own figure mark.

Example candidate response – grade E

- (e) Prepare a statement to show the effect of correcting errors 1– 4 on the original profit for the year (net profit) and calculate the corrected profit for the year.

If the error does not affect the profit for the year (net profit) write “No effect”.

The first correction has been completed as an example.

**Waseem Shah**  
**Statement of corrected profit for the year ended 31 July 2010**

	Increase in profit \$	Decrease in profit \$	
Profit for the year (net profit) before corrections			\$ 33 000
Error 1	-	80 <del>X</del>	
2	<del>X</del>	860	
3	no effect <del>X</del>	<del>X</del>	
4	-	1530	
	<hr style="width: 50%; margin: 0 auto;"/>	<hr style="width: 50%; margin: 0 auto;"/>	
	-	2470	
Corrected profit for the year			<div style="border: 1px solid black; padding: 2px; display: inline-block;">(2470)</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">30530</div> ✓
			OFR
			[7]
			[Total: 21]

Examiner comment

The candidate made incorrect entries for all three errors. The only mark which was earned was an own figure mark for the corrected profit for the year.

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