

ACCOUNTING

Paper 0452/11

Paper 11

Key Messages

This question paper contained a mixture of multiple-choice, short-answer and structured questions. There were accessible marks for candidates with knowledge and application skills. Additional marks were available for those well-prepared candidates who were able to demonstrate higher skills.

Accounting is a subject which requires accuracy and precision. Marks are available for giving correct numerical answers but it is important that candidates are able to analyse information and provide appropriate advice in give scenarios. Candidates are reminded that it is important to answer the question being asked. No marks were available for additional responses.

The application of accounting principles to maintaining books of account (such as the cash book or ledger accounts) is an important part of the subject at this level and candidates need to be able to present these accounting records in an appropriate manner.

In order to gain high marks, candidates require a sound knowledge of definitions and accounting theory. For example, marks were available to those who were aware that the return on capital employed should be expressed as a percentage.

General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all the sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on previous past examination papers and appropriate exercises in textbooks.

It was very noticeable that a large number of candidates lost marks because they provided an incorrect figure without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should make sure that they read through each question very carefully before attempting an answer. Marks may be lost if instructions are not followed. For example marks were lost when candidates failed to follow an instruction to round up the payment period for trade payables to the next whole day.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provided another answer elsewhere on the question paper. It is important that candidates indicate to Examiners that this has been done. For example, a note "Please refer to Page..." or "Continued on Page..." would ensure that this additional work is not overlooked when the paper is being marker.

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The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

This section of the paper consisted of 10 multiple choice questions from across the syllabus. Marks awarded varied considerably and there seemed to be a correlation between the marks gained on this section and overall marks for the paper. Three items, **(c)**, **(e)** and **(g)** were found to be the most challenging for candidates.

Question 2

This question tested candidates' understanding of accounting theory, principles and policies. Simple calculations were also required.

Part (a) required candidates to identify a business document. This was well answered and almost all candidates gained full marks. In **Part (b)** most candidates recognised that a balance sheet was used to show the financial position of a business but very few also stated that this was only true on a certain date. In **Part (c)** many candidates gained marks for correctly identifying the assets and liabilities and the most able candidates achieved all 3 marks. In **Part (d)**, candidates generally knew that a manufacturing account is prepared to show the cost of producing goods. Those candidates who also added that this was for the financial year were awarded a further mark. Candidates invariably knew that the answer to **Part (e)(i)** was the money measurement principle yet **Part (e) (ii)** proved more a challenge and significant number of candidates confused relevance with reliability. Answers for the calculation of the invoice total in **Part (f)** were generally good although some candidates lost marks by stating the discount rather than the invoice total. Almost all candidates were able to correctly identify two non-current assets for **Part (g)**, but a few gave examples of current assets. In **Part (h)** most candidates recognised the separation of business from the owner, but only the most able candidates expanded their answers to include reference to recording of accounting information. Answers for the calculation of the debenture interest in **Part (i)** were generally good although some candidates lost marks by calculating interest for a full year rather than the 6 months required by the question. **Part (j)** required candidates to calculate the electricity chargeable for a year. Although a ledger account was not required, candidates using this method of calculation often gained more marks.

Question 3

This question tested candidates' understanding of accounting theory relating to trial balances and errors. Candidates were asked to prepare journal entries to correct errors and to identify the effect of errors on profit.

Part (a) required candidates to state one reason for preparing a trial balance. A surprisingly high number of candidates failed to gain the mark for this question even though answers relating to either checking for arithmetical errors and for preparing final accounts were acceptable. Most candidates achieved some marks in **Part (b)**, and well prepared candidates frequently gained full marks by correctly recording all totals and inserting the amount of the suspense account. In **Part (c)**, well prepared candidates were able to make the journal entries for correcting an undercast purchases journal and the debit entry for drawings but the journal entry for reversing an incorrect debtor entry proved difficult for all except the most able candidates. **Part (d)** required candidates to identify the effect of the errors on profit for the year. Answers were variable for this question and it may indicate that many candidates were merely guessing.

Candidates invariably recognised that not all errors had been discovered in **Part (e)** and the more competent were able to reason that this was because the suspense account still had a balance remaining.

Question 4

Candidates were required to prepare a petty cash book, make ledger postings and to answer related theory questions.

Part (a) required candidates to explain one reason for maintaining a petty cash book. Most candidates recognised that this was to reduce the number of small entries in the cash book. **Part (b)** required candidates to explain what is meant by the imprest system. Well prepared candidates frequently gained full marks by correctly explaining both the fixed and restoration aspects of the imprest. Less able candidates gave vague answers and often failed to refer to petty cash in their answer. Candidates were required to complete a template of a petty cash book in **Part (c)**. Well-prepared candidates were able to record the

entries and total the various columns. The best candidates also used correct terms for restoring the imprest and entering the refund for stationery. **Part (d)** required candidates to make the appropriate entries for petty cash expenditure for the month in the ledger accounts. The majority of candidates made the mistake of entering each individual payment rather than the total for the month paid from petty cash. Only one entry should have been made in the expense accounts, dated 30 April, showing the total petty cash payments for that expense during the month. In **Part (e)** most candidates correctly quoted the closing balance on the petty cash book completed in **Part (d)**. Credit was given for correct own figures taken from the candidate's answer to **Part (d)**. Some candidates incorrectly offered the imprest amount or the amount of the reimbursement.

Question 5

This question concentrated on partnership accounts. Candidates were required to understand the advantages and disadvantages of partnerships and to prepare journal entries. An appropriation account and a partner's current account were also required.

In **Parts (a) and (b)** candidates were required to state two advantages and two disadvantages of partnerships. Both of these sections were well answered although some candidates incorrectly offered "sharing profit and losses" as either an advantage or disadvantage. Most candidates recognised the benefits of access to additional finance, sharing risks and responsibilities and the drawbacks of sharing profit, less control over the business and slower decision-making. **Part (c)** required candidates to prepare journal entries from a list of transactions relating to the formation of a partnership. Most candidates gained some marks by correctly recording the expense items but only the most able candidates gained full marks by recording the capital entries against each individual partner rather than as just one overall capital amount. The preparation of a partnership appropriation account was required in **Part (d)**. Most candidates were able to achieve some marks on this question. However a significant number of candidates did not attempt this question, which may suggest that some require further study on this topic. The best prepared candidates usually achieved full marks for this question by correctly calculating and entering interest on capital for each partner, entering the partner's salary and apportioning residual profit in the correct ratio. Candidates who gained full marks in **Part (d)** also often gained full marks in **Part (e)** by correctly drawing up the partner's current account. Less well prepared candidates frequently incorrectly included the capital figure or neglected to bring down the closing balance. Answers for **Part (f)** were generally worth full marks showing that candidates usually appreciated the significance of an uneven workload.

Question 6

This question required the calculation and interpretation of accounting ratios for two limited companies. Candidates' understanding of the sources of finance for limited companies in the form of preference shares and debentures was also examined.

Part (a) required candidates to state the formula and calculate working capital, current ratio and quick ratio for a limited company. This was very well answered and many candidates achieved full marks. Less able candidates lost some marks by not showing their answers in the correct format (for example 1.2 instead of 1.2:1) or not showing full workings. Incorrect answers would often gain some marks for correct workings if these were shown. In **Part (b)** candidates were expected to state, giving reasons, which of the two companies had the better current ratio and quick ratio. Most candidates were able to identify which company had the better figures but frequently gave weak explanations for the reasons. Well-prepared candidates recognised that the ratios gave an indication of each firm's ability to pay its debts. A statement that current liabilities were less than current assets was not regarded as an adequate explanation. **Part (c)** required candidates to state two features of preference shares. It was not adequate to state that they were fixed: reference should have been made to the fact that dividends are paid at a fixed percentage. Two features of debentures were required in **Part (d)**. Once again, less able candidates lost marks by not being specific in their answers and by referring to dividend rather than interest.

ACCOUNTING

Paper 0452/12

Paper 12

Key messages

This question paper contained a mixture of multiple-choice, short form and structured questions. There were accessible marks for candidates with knowledge and application skills and additional marks for well-prepared candidates able to show higher skills.

Accounting is a subject that requires accuracy and precision. Marks are available for giving correct numerical answers but where questions require analysis or decision taking, it is important for candidates to be able to give written descriptions or advice. It is also important to answer the question and not to give additional answers which are not required.

The application of accounting principles to the keeping of books of account (such as ledger accounts or the cash book) is an important part of the subject at this level and marks were available for accurate and careful answers to the question on this topic.

A sound knowledge of definitions or explanations of accounting theory will enable candidates to express this knowledge and to apply it in the structured questions.

General comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all the sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on previous past examination papers and appropriate exercises in textbooks.

It was very noticeable that a large number of candidates lost marks because they provided an incorrect figure without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should make sure that they read through each question very carefully before attempting an answer. Marks may be lost if instructions are not followed. For example marks were lost when candidates failed to follow an instruction to round up the payment period for trade payables to the next whole day.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provided another answer elsewhere on the question paper. It is important that candidates indicate to Examiners that this has been done. For example, a note "Please refer to Page..." or "Continued on Page..." would ensure that this additional work is not overlooked when the paper is being marked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" for "balance brought down", "E over E" for "excess of income over expenditure" and "nyp" for "not yet presented" are not acceptable.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on specific questions

Question 1

This section of the paper consisted of 10 multiple choice questions from the syllabus and also tested the skills required for this level. A varied range of marks were achieved and there seemed to be a good correlation between the marks gained on this section and overall marks for the whole paper. Three of the **Questions, (a), (c) and (i)** were found to be the most problematical.

Question 2

This question tested candidates' understanding of accounting theory and required knowledge of divisions of the ledger, stock valuation, income and expenditure, types of errors, provision for doubtful debts, petty cash, accruals and preference share dividends.

Most candidates were able to give satisfactory answers to parts **(a), (b), (c), (e) and (f)**.

Part (d) (i) and (ii) required an explanation of an error of principal and a compensating error together with examples of both types of error. Well-prepared candidates were able to describe and give examples of both types of errors, other candidates struggled with the description element and many examples given for the compensating error were examples of errors of original entry. Often the example was incorrect – a common one was that sales were under-cast and purchases overcast.

Part (g) required the calculation of an electricity expense to be included in the income statement, taking into account unpaid electricity bills. There were some confused answers – candidates were unsure whether to answer in account format or as a calculation. Candidates need to be able to correctly deal with opening and closing accruals. The most common error was adding the opening \$240 accrual rather than subtracting it.

Part (h) required the calculation of a preference share dividend. Many candidates correctly calculated dividend based on the nominal value of \$9000, but ignored the 'two equal instalments'.

Question 3

This question required candidates to explain entries in a three-column cash book and then write up ledger accounts from the cash book.

In **part (a)** the main errors were incorrectly interpreting the cash transaction paid to Mitchell as a receipt and not explaining the cash discount. A common answer was that the equipment was bought on credit.

In **part (b)** some candidates interpreted the transaction as cash withdrawn from the bank.

In **part (c) (i)** candidates misunderstood this question – explaining how the balances were calculated without explaining the significance of them. Few candidates identified both cash in hand and bank overdraft.

In **part (c) (ii)** debit and credit amounts were stated rather than the section where the balances would be shown in the balance sheet.

In **part (c) (iii)** explaining why the cash column of the cash book can never have a balance brought down on the credit side proved troublesome, with many candidates explaining how the balance can be calculated, rather than the negative aspect.

Candidates' responses were excellent to **Part (d)**. The entries for the dishonoured cheque in Sylvia's account and 'Totals for the month' in the Discount allowed account causing most problems.

Question 4

This question required candidates to distinguish between capital and revenue expenditure, to calculate depreciation for the year plus net book value and then to identify assets under correct categories.

In **part (a) (i) and (ii)** many candidates described capital and revenue expenditure, without expressing the effect of recording capital expenditure as revenue expenditure and vice versa.

Part (b) presented few problems. A common error was to select capital expenditure for all transactions.

In **part (c) (i)** some candidates correctly calculated the depreciation for the year, then proceeded to calculate the net book value which was not required. Some candidates ignored their answer to **part (b)**.

Part (c) (ii) was well answered. A common error was to show separate calculations for the computer and the laser printer, with a deduction of \$600 scrap value for each item.

Question 5

This question required the preparation of an income statement, followed by the calculation and discussion of the gross profit and net profit percentages.

In **part (a)**, the majority of candidates achieved excellent marks for the preparation of the income statement. Common errors made were the inclusion of the provision for depreciation of equipment with the calculation for the depreciation for the year and the incorrect calculation of the provision for doubtful debts. Candidates should be aware of inappropriate use of abbreviations, for example NP instead of Net Profit.

In **part (b)**, item **(i)** the calculation of gross profit to revenue gave few problems. Candidates need to ensure calculations are given to two decimal places and the descriptor is included. In item **(ii)** more candidates recognised the reduction in cost of purchases than increase in selling price.

In **part (c)**, item **(i)** the calculation of net profit to revenue was well answered. In item **(ii)** the majority of candidates gave the correct answer of reducing expenses.

Question 6

This question required candidates to interpret a balance sheet by calculating and commenting on current ratio and discussing the request for a long-term bank loan.

In **part (a)** candidates' answers could have been improved by mentioning 'no intention to close down or reduce size'.

In **part (b) (i) and (ii)** the formula for the calculation of the current ratio was correctly given and many candidates' calculations were correct. Common errors were not giving the answer to two decimal places and not expressing the answer as a ratio.

Part (b) (iii) answers mostly stated that the ratio was unsatisfactory, but stated what the ideal should be or commented on current liabilities being higher than current assets, rather than the reason why it was unsatisfactory.

Part (c) – a multiple-choice question found challenging by some candidates.

In **part (d)** candidates were able to state that the bank would want to be satisfied as to the ability of Hart to repay the loan, but few candidates were able to give a second valid reason. Good candidates were able to identify collateral for the loan.

In **part (e)** inability to repay the loan was the common answer, but after this answers were vague, for example insufficient current assets/not enough profit.

Part (f) was generally well answered with taking on a partner and borrowing from relatives the most common suggestion.

ACCOUNTING

Paper 0452/13

Paper 1

Key Messages

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The application of accounting principles to maintaining books of account (such as the cash book or ledger accounts) is an important part of the subject at this level and candidates need to be able to present these accounting records in an appropriate manner.

In order to gain high marks, candidates require a sound knowledge of definitions and accounting theory. For example, marks were available to those who were aware that the return on capital employed should be expressed as a percentage.

General Comments

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This question tested candidates' understanding of accounting theory, principles and policies. Simple calculations were also required.

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Question 5

This question concentrated on partnership accounts. Candidates were required to understand the advantages and disadvantages of partnerships and to prepare journal entries. An appropriation account and a partner's current account were also required.

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Question 6

This question required the calculation and interpretation of accounting ratios for two limited companies. Candidates' understanding of the sources of finance for limited companies in the form of preference shares and debentures was also examined.

Part (a) required candidates to state the formula and calculate working capital, current ratio and quick ratio for a limited company. This was very well answered and many candidates achieved full marks. Less able candidates lost some marks by not showing their answers in the correct format (for example 1.2 instead of 1.2:1) or not showing full workings. Incorrect answers would often gain some marks for correct workings if these were shown. In **Part (b)** candidates were expected to state, giving reasons, which of the two companies had the better current ratio and quick ratio. Most candidates were able to identify which company had the better figures but frequently gave weak explanations for the reasons. Well-prepared candidates recognised that the ratios gave an indication of each firm's ability to pay its debts. A statement that current liabilities were less than current assets was not regarded as an adequate explanation. **Part (c)** required candidates to state two features of preference shares. It was not adequate to state that they were fixed: reference should have been made to the fact that dividends are paid at a fixed percentage. Two features of debentures were required in **Part (d)**. Once again, less able candidates lost marks by not being specific in their answers and by referring to dividend rather than interest.

ACCOUNTING

Paper 0452/21

Paper 2

Key Messages

Question 1 required candidates to be able to prepare a cash book and to have a thorough knowledge of double entry when applied to cash books and also to bad debts and bad debts recovered.

The knowledge of double entry also extended to **Question 2** where candidates were required to prepare a purchases ledger control account. An understanding of control accounts in general was also required.

To gain full marks in **Question 3** a thorough knowledge of the preparation of an income statement of a service business was required. Correct adjustments had to be made for year-end accrued and prepaid income and expenses. An understanding of the calculation and importance of the return on capital employed were required.

Question 4 required candidates to be able to prepare the balance sheet of a club and to understand the difference between a receipts and payments account and an income and expenditure account.

In **Question 5** a thorough understanding of terms associated with inventory valuation was required, together with the ability to calculate and understand the rate of inventory turnover. Knowledge of why certain parties are interested in financial statements was also required.

General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. Reasonably well-prepared candidates should have been able to attempt all the questions.

Candidates must be aware that questions can be set on any section of the syllabus and a thorough knowledge of all the syllabus sections is necessary in order to achieve a pass grade. Working through past examination papers helps candidates to become accustomed to the format of the paper and the style of the questions.

It is recommended that candidates read through each question very carefully before attempting an answer. It is also important to study the requirements of each question. Marks may be lost if these are not followed. Candidates should attempt to answer the question being asked.

The importance of showing calculations where appropriate cannot be emphasised enough. A large number of candidates lost marks needlessly by providing figures without supporting calculations. If calculations had been provided some of the available marks may have been earned even though the final figure was incorrect.

The spaces provided for the candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. Candidates must indicate to Examiners that this has been done. A note "please refer to page ..." or "continued on page ..." would ensure that this additional work is not overlooked when the paper is being marked.

Inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" for "balance brought down", "P" for "profit for the year", "NP" for "net profit", "c" for "contra" are not acceptable.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

This question required candidates to prepare a three column cash book and answer related theory questions. A journal entry to write off a bad debt and theory questions relating to bad debts and bad debts recovered were also included.

- (a) Candidates were required to explain why the cash book is both a book of prime entry and also part of the double entry system. Standard textbooks at this level explain that the cash book consists of two ledger accounts – the cash account and the bank account. The cash book is also a book of prime (original) entry as entries are made in this book from the original business documents (such as cheque counterfoils, receipts etc.).
- (b) Using the information provided, candidates were required to write up and balance a three column cash book. It was expected that the majority of candidates would gain high marks. Many candidates lost marks because of careless errors. The words in the details column should be the name of the account in which the double entry will appear. It is not appropriate to put “purchases of equipment”, “private motor expenses” and “contra”.
- (c) This consisted of theory questions related to the cash book prepared in (b). The overdraft occurred because the trader’s withdrawals from the bank between 8 and 29 January exceeded the money in the bank account. This overdraft could have been prevented by delaying the purchase of the equipment.
- (d) Many candidates correctly explained that the payment of personal motor expenses was an application of the business entity principle as it was recorded as drawings rather than motor expenses.
- (e) A journal entry (with a narrative) to write off a bad debt had to be prepared. There were many wholly correct answers.
- (f) Candidates were required to state the accounts to be debited and credited to record a bad debt recovered. Most candidates correctly debited the bank account. The correct credit should have been to bad debts recovered account: many credited the customer’s account (this would have been correct if the debt had been reinstated first by debiting the customer and crediting bad debts recovered).
- (g) Two ways to reduce the risk of bad debts were required. A large number of candidates incorrectly suggested allowing cash discount, charging interest on overdue accounts etc. These are methods of encourage prompt payment of accounts and not methods of reducing the risk of bad debts.

Question 2

This question was on the topic of control accounts. Candidates were required to prepare a purchases ledger control account and to answer various theory questions on control accounts.

- (a) Two reasons for the preparation of control accounts were required. There were many wholly correct answers. Some candidates incorrectly stated that control accounts prevent fraud and prevent errors: control accounts may assist the discovery of these, but do not actually prevent them. Other candidates could have been more exact in their answers: it was not regarded as adequate to state that control accounts act as a check on the books (candidates should have stated that they acted as a check on the sales and purchases ledgers).
- (b) Candidates were required to explain why the information for the preparation of a purchases ledger control account is obtained from the books of prime (original) entry. Only a few candidates were able to explain that if there was an error in the purchases ledger it would not be revealed by a control account prepared from the individual accounts in that ledger.

- (c) Using the information provided, candidates were required to select relevant figures and prepare a purchases ledger control account. There were some excellent answers. Some candidates had problems making the correct entries for the closing debit balance, the contra and the interest charged. A few candidates included extraneous items such as cash purchases and sales ledger items. A small number of candidates failed to bring down the closing balances.
- (d) Two reasons why it is possible to have a debit balance on a purchases ledger control account were required. Correct responses included overpaying the supplier, paying the supplier in advance, returning goods to the supplier after making payment and making payment without first deducting cash discount.
- (e) Candidates were required to explain the meaning of a contra entry in connection with control accounts. Many were able to correctly explain that this appears on the debit of the purchases ledger control account and on the credit of the sales ledger control account and is made to set off a sales ledger account against a purchases ledger account of the same business. Some candidates may not have read the question carefully as their answers related to a contra entry in a cash book.

Question 3

Using information provided, candidates were required to prepare an income statement for a service business. The owner's capital account then had to be written up. The question also included a calculation of the return on capital employed and related theory questions.

- (a) Some excellent income statements were produced. A large number of candidates lost marks needlessly by not showing the calculations of the items requiring year-end adjustments. Where the final figure was correct marks were awarded, but where an adjustment had been added instead of deducted (or vice versa) and no calculations were shown the marks for that item were lost. The loan interest caused some problems: it was expected that candidates would include an expense of \$1200 (the amount paid plus the amount outstanding at the year end). Depreciation also caused some problems. A few candidates did not seem familiar with the preparation of an income statement of a service business and attempted to provide some form of trading account.
- (b) Candidates were required to prepare a capital account for the year and bring down the closing balance. Common errors included in correct details (such as "bank" for "balance"), omitting the profit for the year, omitting the drawings of \$214, and omitting dates.
- (c) A calculation of the return on capital employed was required. Candidates were expected to use the profit for the year they have calculated in (a). A large number of candidates did not appreciate that the capital employed included the owner's capital plus the long term loan. An own figure mark was available for those candidates who used their figures of profit and capital employed to calculate the return to two decimal places.
- (d) An explanation of the importance of the return on capital employed was required. A number of candidates made the mistake of discussing the return on the owner's capital rather than the return on the total funds employed.
- (e) Candidates were required to state one reason why the return on capital employed was lower than in the previous year. Many correctly suggested that this was due to either lower profit for the year or higher capital employed.

Question 4

This question was based on the topic of accounts of clubs and societies. Candidates had to prepare the balance sheet of a sports club, after correcting the surplus. Related theory questions were also included.

- (a) Candidates were required to explain how the accumulated fund of a sports club had arisen. Only a very few candidates successfully explained that the accumulated fund represented the surpluses the club had made since it was formed. Many described how it could be calculated using the formula assets less liabilities, but this was not the question asked.

- (b) The question stated that after the calculation of the surplus for the year various errors had been discovered. A calculation of the corrected surplus was required. Many candidates successfully made adjustments for most of the errors. A common error was to include petty cash.
- (c) Candidates were required to state two reasons why the bank balance was not equal to the surplus. A number of candidates seemed to believe that this was linked to bank reconciliation and discussed the incidence of unpresented cheques, bank charges etc. The income and expenditure account makes adjustments for accruals and prepayments, includes only revenue items and includes non-monetary items: the bank account includes all monies paid and received irrespective of the period to which they relate and irrespective of whether they are capital or revenue.
- (d) Using information provided, a balance sheet of a sports club had to be prepared. There were some very goods answers. Common errors included not adjusting the bank overdraft for the bank charges, including subscriptions prepaid as a current liability and subscriptions accrued as a current liability, omitting the petty cash, and either omitting the surplus or including the original (rather than the corrected) surplus.

Question 5

This question concerned the valuation of the inventory of a trading business. Candidates were required to calculate the rate of inventory turnover and to answer various theory questions on inventory. Short-answer questions were included on comparison of financial statements and interested parties.

- (a) Candidates were required to explain the meaning of the term “cost” in connection with inventory. There were some very vague answers – many of which related to non-current assets. Candidates should have been able to explain that cost is the actual purchase price of the inventory plus any additional costs incurred in bringing the goods to their present location and condition.
- (b) An explanation of the meaning of the term “net realisable value” was required. Many candidates seemed to believe that this was the net book value of non-current assets. It was expected that candidates would explain that net realisable value is the estimated receipts from the sale of the inventory, less any costs of completing or selling the goods.
- (c) Candidates were required to explain how the valuation of inventory at the lower of cost or net realisable value is an application of the principle of prudence. Many candidates successfully explained that this ensured that the inventory and the profit for the year were not overstated. Once again, a few incorrectly tried to relate the question to non-current assets.
- (d) A table had to be completed to show the effect an incorrect inventory on 31 December 2011 would have on the profit for the year ended 31 December 2012 and on the balance of the capital account on 1 January 2013. Some candidates clearly attempted to calculate the effect of this error, but other answers indicate a degree of guesswork.
- (e) Figures were provided for revenue, opening and closing inventory and gross profit margin. Candidates were required to calculate the rate of inventory turnover. The majority clearly knew the formula and were able to calculate the average inventory. Many candidates were not able to use the revenue and the gross profit margin to calculate the cost of sales. A few candidates did not show the answer to two decimal places or included a percentage or dollar sign rather than the word “times”.
- (f) One reason for the increase in the rate of inventory turnover was required. Many candidates correctly suggested an increase in sales activity. A number incorrectly suggested changes in expenses and profit margins.
- (g) Candidates were required to state one factor which the trader should consider before comparing her business results with those of another business. Most candidates gave appropriate answers relating to the type of goods, the size, the type of business organisation etc.
- (h) The question required two reasons for a trader’s interest in the financial statements of her credit customers. Many candidates gave appropriate answers relating to the assessment of the customer’s liquidity position, determining the credit limit and period etc. A few candidates incorrectly believed that the trader wanted to compare her business with that of the customer.

- (i) Candidates were required to state one reason why an employee and a bank manager would be interested in the trader's financial statements. Many candidates provided suitable answers and earned full marks.

ACCOUNTING

Paper 0452/22

Paper 22

Key Messages

Question 1 required candidates to be able to write up a purchases journal and a purchases returns journal and to be able to prepare purchases ledger accounts. An understanding was required of the payment period for trade payables and the collection period for trade receivables.

Candidates were required to have a thorough knowledge of the recording of accrued income and prepaid expenses in **Question 2**. An understanding of a provision for doubtful debts was also required.

To gain full marks in **Question 3** a thorough knowledge of the preparation of a manufacturing account was required. An understanding of the calculation and importance of the return on capital employed was also needed.

Question 4 required candidates to be able to prepare the balance sheet of a limited company. Related theory questions also had to be answered.

In **Question 5** a thorough knowledge of correction of errors by means of journal entries was required. Candidates also had to understand how errors affected the profit for the year.

General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. Reasonably well-prepared candidates should have been able to attempt all the questions.

Candidates must be aware that questions can be set on any section of the syllabus and a thorough knowledge of all the syllabus sections is necessary in order to achieve a pass grade. Working through past examination papers helps candidates to become accustomed to the format of the paper and the style of the questions.

It is recommended that candidates read through each question very carefully before attempting an answer. It is also important to study the requirements of each question. Marks may be lost if these are not followed. Candidates should attempt to answer the question being asked.

The importance of showing calculations where appropriate cannot be emphasised enough. A number of candidates lost marks needlessly by providing figures without supporting calculations. If calculations had been provided some of the available marks may have been earned even though the final figure was incorrect.

The spaces provided for the candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. Candidates must indicate to examiners that this has been done. A note "please refer to page ..." or "continued on page ..." would ensure that this additional work is not overlooked when the paper is being marked.

Inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" for "balance brought down", "P" for "profit for the year", "C of P" for "cost of production" and "O Shr" for "ordinary shares" are not acceptable.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

This required candidates to make entries in a purchases journal and a purchases returns journal and to write up two purchases ledger accounts. The calculation of the payment period for trade payables and related theory questions were also included.

- (a) Using the information provided, candidates were required to write up a purchases journal and a purchases returns journal. A number of candidates attempted to prepare entries which would appear in a journal rather than those in a purchases journal and a purchases returns journal. These journals simply show a list of dates, names of credit supplies, and the value of goods purchased or returned. Candidates were expected to know that trade discount is deducted from the list price of both purchases and purchases returns.

At the end of the month the journals should have been totalled. The name of the ledger account to which the total was to be transferred should also have been shown.

- (b) The accounts of two credit suppliers had to be written up and balanced or totalled as necessary. A number of candidates incorrectly made separate entries for the trade discount: only the net figures should appear in the ledger accounts. All the entries in the accounts should have been dated.
- (c) Most candidates correctly identified the ledger in which the accounts of the credit suppliers would appear.
- (d) A calculation of the payment period for trade payables was required. There were many wholly correct calculations. The answer should have been rounded up to the next whole day.
- (e) Candidates were required to state one advantage of paying creditors after the due date. Many correctly suggested that this enabled the trader to use the money for other things within the business.
- (f) One disadvantage of paying creditors after the due date was required. The loss of cash discount and the possibility of being charged interest were popular correct answers.
- (g) Three ways of improving the collection period for trade receivables were required. Many candidates gained all the available marks. Provision of cash discount, charging interest on overdue accounts, and refusing further supplies were popular correct responses. Candidates are reminded of the importance of precise answers. It was not regarded as acceptable just to put "Give discount": it should have been made clear that this was cash discount or discount for early settlement.

Question 2

This question was concerned with writing up ledger accounts for an expense, an income and a provision for doubtful debts. Candidates are reminded entries in ledger account should include dates and correct descriptions. A journal entry for a year-end transfer was also required.

- (a) Using information provided, a commission received account had to be written up. There was a mixed response. A number of candidates did not appreciate that this represented income so the money received would be credited and the transfer to income statement would be debited.
- (b) Using information provided, a property tax account had to be written up. As this is an expense account, the money paid would be debited and the transfer to the income statement would be credited.
- (c) The accruals (matching) principle was correctly identified by many candidates as the principle being applied in the preparation of the accounts in (a) and (b).
- (d) Candidates were required to name the section of the balance sheet in which the balances on the commission received account and the property tax account would appear. Many candidates believed that one was a current asset and one was a current liability: in this instance they were both current assets.

- (e) A journal entry was required to show the year-end transfer of the discount allowed account to the income statement. There were some wholly correct answers. A few did not follow the instruction to include a narrative.
- (f) Using the information provided, candidates were required to write up a provision for doubtful debts account. Some candidates did not appreciate that only the difference between the opening and closing provisions would be transferred to the income statement. A few incorrectly included the total of the trade receivables.
- (g) The principle of prudence was identified by many candidates as the principle being applied by maintaining a provision for doubtful debts.

Question 3

Using information provided, candidates were required to prepare a manufacturing account and to answer related theory questions. The question also included a calculation of the return on capital employed and a related theory question.

- (a) Some excellent manufacturing accounts were produced. It is important that items such as cost of materials used, prime cost and cost of production are correctly labelled. Common errors included incorrect adjustments on the general expenses and incorrect calculations or labelling of the depreciation. A few candidates incorrectly deducted the overheads from the prime cost.
- (b) Candidates were required to define the terms raw materials, work in progress and finished goods. Appropriate examples from the manufacturer in question were also required. There were many correct answers. Candidates are reminded of the importance of a precise answer. For example, an answer “work in progress is work that is progressing” is far from adequate. The examples provided by some candidates were not related to the furniture-making business which was the subject of the question.
- (c) Only a small number of candidates were able to explain why loose tools were re-valued. It was expected that candidates would explain that this is an application of the materiality principle, or that it is not practical to maintain detailed records of this type of asset.
- (d) A calculation of the return on capital employed was required. Candidates were expected to deduct the expenses for the year from the gross profit to arrive at the profit for the year. A large number of candidates did not appreciate that the capital employed included the owner’s capital plus the long term loan.
- (e) The return on capital employed for the present year had to be compared with that of the previous year. Candidates had to state, giving a reason, whether the trader would be satisfied. Answers which were correct based on the calculations in Part (d) earned marks.

Question 4

This question was on the topic of limited liability companies. Candidates were required to prepare a balance sheet of a limited company and to answer theory questions relating to the effect of issuing debentures and preference shares.

- (a) Using information provided, a balance sheet of a limited company had to be prepared. There were some very good answers. A few candidates failed to show the deduction of the provision for doubtful debts from the trade receivables. Common errors made were including the debentures within the capital and reserves section and showing two separate items for retained profit (instead of a single amount of \$13 600).
- (b) Candidates were informed that the company was proposing to raise extra funds by the issue of additional debentures. A calculation was required of the amount of additional debenture interest which would have to be paid. Whilst many candidates correctly calculated the interest at \$1600, a number of candidates incorrectly calculated the interest on the existing debentures.

Most candidates correctly explained that the profit for the year would decrease if extra debentures were issued as debenture interest would appear as an expense in the income statement.

- (c) Candidates were asked to calculate the amount of additional preference share dividend if the funds were raised through an issue of preference shares rather than an issue of debentures. Many candidates correctly calculated the dividend at \$2000. A number of candidates incorrectly based their calculation on the existing preference shares.

A large number of candidates correctly stated that the profit available for ordinary shareholders would decrease if extra preference shares were issued.

- (d) Candidates were required to explain the effect on the existing ordinary shareholders if the funds were raised through an issue of ordinary shares. Some candidates were able to explain that the profit available for ordinary share dividend would have to be divided between a greater number of shareholders. Other acceptable answers included an explanation that the percentage of the ownership of the existing shareholders would be diluted.

Question 5

The main topic of this question was the correction of errors and the effect of errors on the profit for the year. The question also included a calculation of the quick ratio and related theory questions.

- (a) Four errors were described and candidates were required to prepare correcting journal entries. Marks were lost when incorrect account names were used. It is not appropriate to show that a correcting entry would be made in the sales journal or the purchases returns journal. Only a few candidates recognised that the correcting entry of omitting the petty cash from the trial balance would involve only a credit to suspense account and no debit entry.
- (b) Candidates were required to complete a statement to show the effect of correcting four errors on the profit for the year. Most candidates earned some of the available marks. A number of marks were lost because of arithmetical errors, and by not including the figure shown for error 1 which had been inserted as an example.
- (c) Using information provided, a calculation of the quick ratio was required. Many candidates gained full marks. A few did not use the correct figure of liquid assets (\$19 640). A small number did not express the answer in ratio format.
- (d) An explanation of the importance of the quick ratio was required. It was expected that candidates would be able to explain that this shows whether a business is able to pay its immediate liabilities from its liquid assets, without having to rely on the sale of inventory.
- (e) Candidates were required to explain why the quick ratio is a more reliable indicator of liquidity than the current ratio. Most candidates correctly stated that this ratio excludes inventory. Many were also able to explain that this is because inventory is not regarded as a liquid asset.

ACCOUNTING

Paper 0452/23

Paper 2

Key Messages

Question 1 required candidates to be able to prepare a cash book and to have a thorough knowledge of double entry when applied to cash books and also to bad debts and bad debts recovered.

The knowledge of double entry also extended to **Question 2** where candidates were required to prepare a purchases ledger control account. An understanding of control accounts in general was also required.

To gain full marks in **Question 3** a thorough knowledge of the preparation of an income statement of a service business was required. Correct adjustments had to be made for year-end accrued and prepaid income and expenses. An understanding of the calculation and importance of the return on capital employed were required.

Question 4 required candidates to be able to prepare the balance sheet of a club and to understand the difference between a receipts and payments account and an income and expenditure account.

In **Question 5** a thorough understanding of terms associated with inventory valuation was required, together with the ability to calculate and understand the rate of inventory turnover. Knowledge of why certain parties are interested in financial statements was also required.

General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. Reasonably well-prepared candidates should have been able to attempt all the questions.

Candidates must be aware that questions can be set on any section of the syllabus and a thorough knowledge of all the syllabus sections is necessary in order to achieve a pass grade. Working through past examination papers helps candidates to become accustomed to the format of the paper and the style of the questions.

It is recommended that candidates read through each question very carefully before attempting an answer. It is also important to study the requirements of each question. Marks may be lost if these are not followed. Candidates should attempt to answer the question being asked.

The importance of showing calculations where appropriate cannot be emphasised enough. A large number of candidates lost marks needlessly by providing figures without supporting calculations. If calculations had been provided some of the available marks may have been earned even though the final figure was incorrect.

The spaces provided for the candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. Candidates must indicate to Examiners that this has been done. A note "please refer to page ..." or "continued on page ..." would ensure that this additional work is not overlooked when the paper is being marked.

Inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" for "balance brought down", "P" for "profit for the year", "NP" for "net profit", "c" for "contra" are not acceptable.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

This question required candidates to prepare a three column cash book and answer related theory questions. A journal entry to write off a bad debt and theory questions relating to bad debts and bad debts recovered were also included.

- (a) Candidates were required to explain why the cash book is both a book of prime entry and also part of the double entry system. Standard textbooks at this level explain that the cash book consists of two ledger accounts – the cash account and the bank account. The cash book is also a book of prime (original) entry as entries are made in this book from the original business documents (such as cheque counterfoils, receipts etc.).
- (b) Using the information provided, candidates were required to write up and balance a three column cash book. It was expected that the majority of candidates would gain high marks. Many candidates lost marks because of careless errors. The words in the details column should be the name of the account in which the double entry will appear. It is not appropriate to put “purchases of equipment”, “private motor expenses” and “contra”.
- (c) This consisted of theory questions related to the cash book prepared in (b). The overdraft occurred because the trader’s withdrawals from the bank between 8 and 29 January exceeded the money in the bank account. This overdraft could have been prevented by delaying the purchase of the equipment.
- (d) Many candidates correctly explained that the payment of personal motor expenses was an application of the business entity principle as it was recorded as drawings rather than motor expenses.
- (e) A journal entry (with a narrative) to write off a bad debt had to be prepared. There were many wholly correct answers.
- (f) Candidates were required to state the accounts to be debited and credited to record a bad debt recovered. Most candidates correctly debited the bank account. The correct credit should have been to bad debts recovered account: many credited the customer’s account (this would have been correct if the debt had been reinstated first by debiting the customer and crediting bad debts recovered).
- (g) Two ways to reduce the risk of bad debts were required. A large number of candidates incorrectly suggested allowing cash discount, charging interest on overdue accounts etc. These are methods of encourage prompt payment of accounts and not methods of reducing the risk of bad debts.

Question 2

This question was on the topic of control accounts. Candidates were required to prepare a purchases ledger control account and to answer various theory questions on control accounts.

- (a) Two reasons for the preparation of control accounts were required. There were many wholly correct answers. Some candidates incorrectly stated that control accounts prevent fraud and prevent errors: control accounts may assist the discovery of these, but do not actually prevent them. Other candidates could have been more exact in their answers: it was not regarded as adequate to state that control accounts act as a check on the books (candidates should have stated that they acted as a check on the sales and purchases ledgers).
- (b) Candidates were required to explain why the information for the preparation of a purchases ledger control account is obtained from the books of prime (original) entry. Only a few candidates were able to explain that if there was an error in the purchases ledger it would not be revealed by a control account prepared from the individual accounts in that ledger.

- (c) Using the information provided, candidates were required to select relevant figures and prepare a purchases ledger control account. There were some excellent answers. Some candidates had problems making the correct entries for the closing debit balance, the contra and the interest charged. A few candidates included extraneous items such as cash purchases and sales ledger items. A small number of candidates failed to bring down the closing balances.
- (d) Two reasons why it is possible to have a debit balance on a purchases ledger control account were required. Correct responses included overpaying the supplier, paying the supplier in advance, returning goods to the supplier after making payment and making payment without first deducting cash discount.
- (e) Candidates were required to explain the meaning of a contra entry in connection with control accounts. Many were able to correctly explain that this appears on the debit of the purchases ledger control account and on the credit of the sales ledger control account and is made to set off a sales ledger account against a purchases ledger account of the same business. Some candidates may not have read the question carefully as their answers related to a contra entry in a cash book.

Question 3

Using information provided, candidates were required to prepare an income statement for a service business. The owner's capital account then had to be written up. The question also included a calculation of the return on capital employed and related theory questions.

- (a) Some excellent income statements were produced. A large number of candidates lost marks needlessly by not showing the calculations of the items requiring year-end adjustments. Where the final figure was correct marks were awarded, but where an adjustment had been added instead of deducted (or vice versa) and no calculations were shown the marks for that item were lost. The loan interest caused some problems: it was expected that candidates would include an expense of \$1200 (the amount paid plus the amount outstanding at the year end). Depreciation also caused some problems. A few candidates did not seem familiar with the preparation of an income statement of a service business and attempted to provide some form of trading account.
- (b) Candidates were required to prepare a capital account for the year and bring down the closing balance. Common errors included in correct details (such as "bank" for "balance"), omitting the profit for the year, omitting the drawings of \$214, and omitting dates.
- (c) A calculation of the return on capital employed was required. Candidates were expected to use the profit for the year they have calculated in (a). A large number of candidates did not appreciate that the capital employed included the owner's capital plus the long term loan. An own figure mark was available for those candidates who used their figures of profit and capital employed to calculate the return to two decimal places.
- (d) An explanation of the importance of the return on capital employed was required. A number of candidates made the mistake of discussing the return on the owner's capital rather than the return on the total funds employed.
- (e) Candidates were required to state one reason why the return on capital employed was lower than in the previous year. Many correctly suggested that this was due to either lower profit for the year or higher capital employed.

Question 4

This question was based on the topic of accounts of clubs and societies. Candidates had to prepare the balance sheet of a sports club, after correcting the surplus. Related theory questions were also included.

- (a) Candidates were required to explain how the accumulated fund of a sports club had arisen. Only a very few candidates successfully explained that the accumulated fund represented the surpluses the club had made since it was formed. Many described how it could be calculated using the formula assets less liabilities, but this was not the question asked.

- (b) The question stated that after the calculation of the surplus for the year various errors had been discovered. A calculation of the corrected surplus was required. Many candidates successfully made adjustments for most of the errors. A common error was to include petty cash.
- (c) Candidates were required to state two reasons why the bank balance was not equal to the surplus. A number of candidates seemed to believe that this was linked to bank reconciliation and discussed the incidence of unpresented cheques, bank charges etc. The income and expenditure account makes adjustments for accruals and prepayments, includes only revenue items and includes non-monetary items: the bank account includes all monies paid and received irrespective of the period to which they relate and irrespective of whether they are capital or revenue.
- (d) Using information provided, a balance sheet of a sports club had to be prepared. There were some very goods answers. Common errors included not adjusting the bank overdraft for the bank charges, including subscriptions prepaid as a current liability and subscriptions accrued as a current liability, omitting the petty cash, and either omitting the surplus or including the original (rather than the corrected) surplus.

Question 5

This question concerned the valuation of the inventory of a trading business. Candidates were required to calculate the rate of inventory turnover and to answer various theory questions on inventory. Short-answer questions were included on comparison of financial statements and interested parties.

- (a) Candidates were required to explain the meaning of the term “cost” in connection with inventory. There were some very vague answers – many of which related to non-current assets. Candidates should have been able to explain that cost is the actual purchase price of the inventory plus any additional costs incurred in bringing the goods to their present location and condition.
- (b) An explanation of the meaning of the term “net realisable value” was required. Many candidates seemed to believe that this was the net book value of non-current assets. It was expected that candidates would explain that net realisable value is the estimated receipts from the sale of the inventory, less any costs of completing or selling the goods.
- (c) Candidates were required to explain how the valuation of inventory at the lower of cost or net realisable value is an application of the principle of prudence. Many candidates successfully explained that this ensured that the inventory and the profit for the year were not overstated. Once again, a few incorrectly tried to relate the question to non-current assets.
- (d) A table had to be completed to show the effect an incorrect inventory on 31 December 2011 would have on the profit for the year ended 31 December 2012 and on the balance of the capital account on 1 January 2013. Some candidates clearly attempted to calculate the effect of this error, but other answers indicate a degree of guesswork.
- (e) Figures were provided for revenue, opening and closing inventory and gross profit margin. Candidates were required to calculate the rate of inventory turnover. The majority clearly knew the formula and were able to calculate the average inventory. Many candidates were not able to use the revenue and the gross profit margin to calculate the cost of sales. A few candidates did not show the answer to two decimal places or included a percentage or dollar sign rather than the word “times”.
- (f) One reason for the increase in the rate of inventory turnover was required. Many candidates correctly suggested an increase in sales activity. A number incorrectly suggested changes in expenses and profit margins.
- (g) Candidates were required to state one factor which the trader should consider before comparing her business results with those of another business. Most candidates gave appropriate answers relating to the type of goods, the size, the type of business organisation etc.
- (h) The question required two reasons for a trader’s interest in the financial statements of her credit customers. Many candidates gave appropriate answers relating to the assessment of the customer’s liquidity position, determining the credit limit and period etc. A few candidates incorrectly believed that the trader wanted to compare her business with that of the customer.

- (i) Candidates were required to state one reason why an employee and a bank manager would be interested in the trader's financial statements. Many candidates provided suitable answers and earned full marks.