

ACCOUNTING

<p>Paper 0452/01 Multiple Choice</p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	21	B
2	C	22	B
3	B	23	C
4	A	24	D
5	C	25	D
6	B	26	D
7	B	27	B
8	D	28	A
9	A	29	B
10	D	30	A
11	B	31	B
12	A	32	B
13	A	33	C
14	C	34	D
15	C	35	C
16	C	36	D
17	C	37	B
18	D	38	B
19	A	39	D
20	D	40	B

General comments

This was the twelfth sitting of this paper.

There were 5492 candidates (compared to 5348 in November 2005). The mean mark was 23.9 out of 40 (compared to 22.9 in November 2005). The standard deviation was 7.1 (compared to 7.4 in November 2005).

Judged against the accessibility of 60-90%, two items were regarded as slightly too easy; two were regarded as slightly too difficult and 16 were regarded as too difficult.

All the items were within the Core Syllabus.

Comments on specific items

Item 8

This item was based on the principle of money measurement. Only 39% correctly selected the key, D. It would appear that many candidates do not understand this accounting principle.

Items 10 and 11

These both concerned business documents. A large number of candidates showed uncertainty in this topic.

In **Item 10** only 59% were able to correctly identify the statement (D) as the key. It was very disappointing that 22% believed that an invoice showed details of returns and payments.

In **Item 11** the majority of candidates appeared to think that cash discount is shown as a deduction on an invoice. Only 41% correctly identified the key as B.

Item 15

This should have been a relatively straightforward item. The correct account (purchases returns account) was identified by 70%, but only 47% correctly indicated that the entry should be credited (C).

Item 19

This concerned errors of omission. Options B, C and D described a "single entry" which *would* be revealed by the trial balance. Only the complete omission of a transaction (A) would *not* be revealed by a trial balance.

Items 20 and 22

Both of these concerned the effect of errors. The responses were disappointing.

In **Item 20** Options B and C could be eliminated immediately, as these involved a debit in Jane's account. Option A could be eliminated as this involved a credit in both John and Jane's accounts.

In **Item 22** Options C and D could be eliminated, because if sales are overstated, a debit entry is required in the sales account. The amount was overstated by \$2250, so Option B should have been identified as the key.

Items 23 and 24

These concerned the effect of year-end adjustments. The selection of the distractors suggests a degree of guesswork.

In **Item 23**, only 43% correctly deducted the opening accrual and added the closing accrual to arrive at the key, C.

In **Item 24** only 33% correctly identified the key, D. The fact that current assets would be understated as a result of the omission of a prepayment was correctly identified by 65%, but only half of these realised that the net profit would also be understated.

Item 30

It was very disappointing that only 32% correctly selected the key, A. Many candidates were unable to apply the basic rule that stock should be valued at the lower of cost and net realisable value.

Item 32

This should have been a relatively straightforward item, but only 54% correctly selected B as the key.

Items 34 and 35

These were both on the topic of single entry.

In **Item 34**, the key was selected by 52%. C was chosen by 28%. The use of purchases and sales invoices will not assist in the computation of stocks, gains and expenses; the profit or loss cannot, therefore be calculated.

In **Item 35**, 79% realised that the amount received must be adjusted by *both* the opening and closing balances to arrive at the amount of credit sales. Only 55% made the adjustments correctly.

Item 37

It was very disappointing that only 52% were able to correctly apply the formula (current assets minus current liabilities) to calculate working capital.

Item 38

The key was selected by 54%. Option A, the current ratio, was selected by 27%. This *is* a liquidity ratio, but the quick ratio is a better indicator because it excludes stock.

Items 39 and 40

These were both concerned with interpretation of ratios.

The key, D, was correctly identified by 53%. The selection of the other options indicates a substantial degree of guesswork. There was no change in the total sales or the gross profit percentage, so Options A and B could be eliminated. If the net profit percentage has fallen, the expenses must have increased, so Option C could be eliminated.

In **Item 40** only 43% were able to identify the key, B. The current ratio measures the relationship between the current assets and the current liabilities; the monetary values are not considered. Options A, C and D could, therefore, be eliminated.

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<p>Paper 2</p>

General comments

Candidates generally performed well on this question paper and there were many good scripts, with evidence that many Centres had worked hard to prepare their candidates. There are, however, some specific areas of weakness, some of which have been reported on previous occasions and Centres should pay attention to these.

Most of the short questions in **Question 1** were well answered, but some specific parts gave difficulty to many candidates, especially where they were required to explain a concept in their own words. In **Question 2** part (a) many candidates earned most of the marks, but lost some further marks by overlooking a specific requirement. Part (b) was very well answered. **Question 3 (a)** on accounting theory was not well answered, but part (b) was very well attempted, with many candidates gaining almost full marks. Answers to part (c) were very weak and many candidates appeared to be guessing the answers to part (d). **Question 4** was very poorly answered overall, which was surprising, as similar questions have previously been set. **Question 5** was well answered with many candidates gaining all the available marks for this question.

Most candidates completed all the questions and there did not seem to be evidence of time pressure. There seemed to be a tendency for candidates to start their answer in ink, only to find they had made mistakes and to then correct the answer, not always clearly or legibly, requiring considerable effort by examiners to find correct answers to award marks.

Comments on specific questions

Question 1

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus and was quite well answered, although varied answers were found with questions (a), (d) and (e).

- (a) Most candidates knew that the document sent was a sales invoice, but a surprising number incorrectly answered with debit note, statement, credit note or journal.
- (b) Virtually all candidates were able to give two examples of a fixed asset. Acceptable answers included land, buildings, plant, machinery, equipment, fixtures, vehicles, vans, and cars.
- (c) Motor expenses appear in the profit and loss account, as most candidates correctly answered.
- (d) Many candidates had difficulty in correctly expressing the concept that a trade creditor was a supplier of goods and services on credit to a business, who has not yet been paid.
- (e) The correct error is an error of commission, but candidates gave other incorrect answers such as error of omission and error of original entry.
- (f) Methods of calculating depreciation include the straight-line or fixed instalment method, the reducing or diminishing balance method and the revaluation method. Many candidates knew two of these and were able to give correct answers.
- (g) A bank overdraft is shown in the current liabilities section of a balance sheet.

- (h) The question asked for workings, so the method of calculating the rate of stock turnover was required for the marks. The correct formula is: Cost of goods sold / average stock = n times. In this case cost of goods sold = \$45 000 and average stock is $(\$6\ 000 + \$9\ 000) / 2 = \$7\ 500$, so the rate of stock turnover is 6 times. Candidates who expressed the answer as a reciprocal and multiplied by 365 to give the number of days as 61 also earned marks.
- (i) Most candidates correctly inserted the missing words to give the definition of gross profit percentage as gross profit divided by sales. Acceptable answers also included turnover, revenue and net sales.

Question 2

Part (a) of this question required candidates to show the entries for given transactions in individual ledger accounts and to show the entries for transfers to the trading and profit and loss accounts for the month. Part (b) then required an extract from the trading account for the month.

For part (a) many candidates made reasonable efforts at the ledger account entries, but there was little evidence of a proper understanding of double entry. Each transaction could have been dealt with by entering the correct credit and debit entries to earn marks. Few candidates made any attempt to transfer totals to the trading or profit and loss accounts and there was much confusion with reversed entries, partial and one-sided entries, discount received instead of discount allowed and candidates showing purchases entries instead of sales.

As previously mentioned in these reports, candidates should note that where ledger accounts are requested, attention to detail such as dates, precise narrative and accurate layout, with balances brought and carried down, is usually required to earn the available marks.

The correct ledger entries are as follows:

Sales			
2006			
31 March	Trading account	365	
		<u>365</u>	
			2006
4 March	Vanni		110
7 March	Cash		55
10 March	Saska		<u>200</u>
			<u>365</u>
Sales Returns			
15 March	Vanni	<u>30</u>	
			31 March
	Trading account		<u>30</u>
Sales Returns			
15 March	Vanni	<u>30</u>	
			31 March
	Trading account		<u>30</u>
Vanni			
4 March	Sales	110	
		<u>200</u>	
			15 March
	Sales returns (returns inwards accepted)		<u>30</u>
			<u>80</u>
			31 March
	Balance c/d		<u>110</u>
Saska			
10 March	Sales	200	
		<u>200</u>	
			31 March
	Cash		190
	Discount allowed		<u>10</u>
			<u>200</u>
Discount allowed			
31 March	Total (Cash book, Saska accepted)	<u>10</u>	
			31 March
	Profit & Loss account		<u>10</u>

		Cash Book				
		Discount	Cash		Discount	Cash
7 March	(Cash) Sales		55			
31 March	Saska	10	<u>190</u>	Balance c/d		<u>245</u>
			<u>245</u>			<u>245</u>

A running balance layout is acceptable.

Part **(b)** required candidates to make entries in a pro-forma trading and profit and loss account and almost all candidates correctly showed the entries as follows:

(i)	365
(ii)	30
(iii)	335
(iv)	10

Question 3

This question asked candidates in part **(a)** to state which accounting principles had been applied in the treatment of two items in a given trial balance and then in part **(b)** to prepare a balance sheet from the information given. The question continued by asking candidates in part **(c)** to explain how the trader could reduce his bank overdraft and in part **(d)** to state the effect on five items in his balance sheet of increasing his long term loan.

Part **(a)** was not well answered.

The accounting principles applied in the treatment of **(i)** the profit for the year would have included realisation, prudence, matching (or accruals) and possibly consistency. In the treatment of **(ii)** stock, relevant principles would have been prudence or consistency.

In many cases, candidates seemed to select principles at random, in the hope they were correct, rather than showing an understanding of the purpose of such principles.

Part **(b)** was well answered, with some good scripts earning full marks. Common errors were not to show the details (or the totals) of the fixed assets, to show the bank overdraft as a current asset (it is a current liability), to omit the line showing the amount of working capital or net current assets and to include the long term loan \$5 000 in the calculation of capital for the year. Many candidates who had shown the bank overdraft of \$2 200 on the incorrect side of the balance sheet seemed not to realise this might be the reason why their balance sheet did not balance by \$4 400.

It is apparent that Centres teach several layouts for balance sheets and one acceptable layout would be:

Morgan
Balance Sheet at 31 August 2006

	Cost	Provision for Depreciation	Net book value
	\$	\$	\$
Fixed assets			
Machinery	7 000	1 400	5 600
Office equipment	<u>2 500</u>	<u>1 000</u>	<u>1 500</u>
	<u>9 500</u>	<u>2 400</u>	<u>7 100</u>
Current assets			
Stock		3 900	
Debtors		3 500	
Prepayments		<u>600</u>	
Cash		<u>200</u>	
		8 200	
Less Current liabilities			
Creditors	1 800		
Accrued expenses	300		
Bank overdraft	<u>2 200</u>		
		<u>4 300</u>	
Net current assets/working capital			<u>3 900</u>
Total assets			11 000
Long term liability			
Loan repayable 2011			<u>5 000</u>
			<u>6 000</u>
Financed by:			
Capital at 1 September 2005			9 000
Add profit for the year			<u>18 000</u>
			27 000
Less drawings			<u>21 000</u>
			<u>6 000</u>

Other layouts are also acceptable, but candidates should be encouraged to show a figure for net current assets or working capital as an item in their answer.

In part (c), candidates made a variety of suggestions, including some unlikely and incorrect proposals, for reducing the bank overdraft. Many made a correct suggestion, which included collecting debtors, reducing stock, delaying the payment of creditors, reducing drawings, increasing capital, selling fixed assets or obtaining a long term loan, all of which earned marks. Increasing sales and reducing expenses were not accepted, nor were paying cash into the bank, making cash sales or the original, but incorrect recommendation, to transfer the overdraft to a suspense account.

Part (d) required candidates to show whether increasing the long term loan would be to increase, reduce or have no effect on a number of balance sheet items. Many candidates appeared to be guessing their answers to this, as there was little logic behind their answers, but most gained some marks from their efforts.

The correct answers are:

		Increase	Decrease	No effect
(i)	Bank overdraft		√	
(ii)	Loan account	√		
(iii)	Working capital	√		
(iv)	Profit for the year			√
(v)	Capital			√

Question 4

This question was very poorly answered. It appears that few candidates appreciate the accounting principle of matching and its application. Many candidates are very confused about the correct entries required in a ledger account to record accruals and prepayments. This is not a difficult area of the syllabus and is an important aspect of accurate book-keeping and accounting. It was disappointing that many candidates lost marks on this question.

Part (a) required candidates to explain and give an example of the accounting principle of matching. The correct answer required candidates to state that income and expenditure should be matched to the period to which they relate. Acceptable examples would include accruals, prepayments and provision for depreciation. Few candidates were able to express this concept clearly and many related matching to double entry in the ledger, to income and expenditure in a profit and loss account, or to cash receipts and payments, none of which were correct.

Part (b) required candidates to write up the insurance account in Karim's ledger, recording a prepayment brought forward, a payment of the insurance premium for the year, the prepayment carried forward to the following year and the transfer to the profit and loss account. This was not well answered at all. Some candidates brought forward the correct prepayment on the correct (debit) side of the account, others brought it forward on the credit side, many gave an incorrect description, such as "insurance", and others omitted the date, which is important; the entry for the payment of the insurance premium was often on the incorrect side of the account; few candidates correctly calculated the prepayment to be carried forward, but some did realise that the transfer to the profit and loss account was the balance remaining on the account.

This was a disappointing performance.

The insurance account should have been written up as follows:

Kalim Insurance account			
2005			
1 October	Balance b/d	300	
2006			
1 January	Bank/cash	1 320	
		1 620	
			2006
			30 September
			Profit and Loss Account
			1 290
			30 September
			Balance c/d
			330
			1 620

Question 5

Part (a) of this question required candidates to prepare a profit and loss appropriation account for a partnership. This part of the question was well answered, with many candidates earning full marks. Common errors were to deduct instead of add the interest on drawings and to allocate the residual profit in the ratio Smith 3:Travers 2, instead of the reverse.

The account is as follows:

Smith and Travers
Profit and Loss Appropriation Account
Year ended 30 September 2006

		\$	\$
Net profit			89 000
Add	Interest on drawings		
	Smith	4% x \$35 000	1 400
	Travers	4% x \$15 000	<u>600</u>
			91 000
Less	Interest on capital		
	Smith	5% x \$30 000	1 500
	Travers	5% x \$40 000	<u>2 000</u>
			3 500
	Salary to Smith	<u>15 000</u>	
			<u>18 500</u>
Residual profit			72 500
Allocated	Smith	2/5	29 000
	Travers	3/5	<u>43 500</u>
			<u>72 500</u>

Part (b) of the question required candidates to calculate the balance on Smith's current account at 30 September 2006. Many candidates answered this by preparing the account itself and some prepared current accounts for both partners. A statement of the account with its component items was also acceptable, but the individual items needed to be correctly added or deducted and no additional items included in error. Some candidates incorrectly included the capital balance. A suitable calculation is set out below.

Smith
Current account, year ended 30 September 2006

		\$	\$
Balance at 1 October 2005			2 300
Add	Interest on capital		1 500
	Salary		15 000
	Share of residual profit		<u>29 000</u>
			47 800
Less	Interest on drawings	1 400	
	Drawings	<u>35 000</u>	
			<u>36 400</u>
Balance at 30 September 2006			<u>11 400</u>

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Paper 3

General comments

The aim of this structured examination paper was to discriminate between candidates obtaining Grades A to C. Only those candidates who have studied the Extended Curriculum and who are expected to achieve at least a Grade C should have been entered for this paper.

All the questions were compulsory and were set mainly on the Extended Curriculum. The paper was so designed that some of the marks were relatively easy to earn, but other marks could only be earned by those candidates who demonstrated a greater degree of knowledge and understanding.

A number of candidates were able to earn high marks as their scripts showed a high degree of competence. Other candidates would have benefited from further study before attempting an examination of this level. It was pleasing to find that the vast majority of candidates made an attempt at all the questions.

The importance of showing all calculations cannot be emphasised enough. Where an incorrect figure is shown no marks can be awarded if there is no evidence of how this figure has been arrived at: where calculations are provided it may be possible to award some of the available marks.

Presentation of the accounting statements was generally satisfactory. In some cases, however, presentation could have been greatly improved. For example drawing and using two or three columns in the trading and profit and loss account in **Question 1** was preferable to a mass of figures totally out of alignment.

Comments on specific questions

Question 1

This involved the preparation of a trading and profit and loss account from a given trial balance and accompanying notes. It was very pleasing to find that many candidates were able to score high marks on this question.

The calculation of the closing stock proved difficult for many candidates. The gross profit margin was 25%, so once the net sales was obtained it was possible to calculate the gross profit (25% of \$88 400). The difference between the sales and the gross profit was the cost of sales (\$66 300). It was then possible to insert the missing figure for closing stock (\$8 400).

It was disappointing to find that a number of candidates failed to deduct from the purchases the goods taken by the proprietor for personal use. Errors were frequently made in the calculation of the increase in the provision for doubtful debts. The provision was to be maintained at 2% of the debtors. There was already a provision of \$130, so it was necessary to debit the profit and loss account with \$50 (the amount of the increase).

Another problem area was the depreciation. Fixtures were revalued at the end of the year, so the difference between that value and the opening value represented the depreciation for the year (\$7800 - \$7250). Many candidates applied the straight line method of depreciation to the equipment rather than the reducing balance method. This depreciation should have been calculated as 10% x (\$5000 - \$950).

Candidates are reminded that only the depreciation for the year and the change in the provision for doubtful debts are included in the profit and loss account. The provision for depreciation and the provision for doubtful debts appear in the balance sheet.

Question 2

This question was concerned with the correction of errors by journal entries and suspense account and also contained some theory relating to control accounts.

- (a) Most candidates managed to earn some marks for correcting various errors by means of journal entries. The entries for Error number 2 were usually correct. In Error number 1 a number of candidates made an entry into the stock account or a goods account rather than the purchases account. In Error number 3 many candidates credited the bad debts account and debited the suspense account with \$150 and failed to make any entry to show the bad debt recovered.
- (b) Candidates were required to prepare a suspense account starting with the difference on the trial balance. A traditional "T" account or a three column running balance account was equally acceptable. This was reasonably well done. Some candidates lost marks because of incorrect details (the names of the opposite accounts) and others failed to balance the account or total the account as appropriate. It was disappointing that a number of candidates completely reversed the account.
- (c) Using the suspense account prepared in (b), candidates were required to state whether or not all the errors had been discovered. It was pleasing to find that most candidates were able to interpret their account correctly. Where the account was closed it was expected that the candidates would state that the errors had been discovered because of this. Where a balance remained on the account, it was expected that candidates would state that not all the errors had been discovered because a balance still remained on the suspense account.
- (d) Three advantages of preparing a sales ledger control account (apart from the location of errors) were required. It was disappointing to find many candidates describing the location of errors despite the instruction to exclude this aspect. Most candidates did, however, earn some of the available marks. It was slightly disappointing that there were a number of incorrect answers such as the calculation of total sales, and a number of vague answers such as the proving arithmetic accuracy (without stating the section of the ledger to which this referred).
- (e) The meaning of a contra entry in connection with control accounts was required. It was disappointing that a large number of candidates could not provide an acceptable explanation. It was not uncommon to find reference to a contra entry in a cash book. A contra entry in connection with control accounts involves a transfer from an account of a person/business in the sales ledger to an account of the same person/business in the purchases ledger. It therefore appears in both control accounts.
- (f) It was pleasing to find a large number of wholly correct answers to this section which required candidates to state where three items would appear in a sales ledger control account. There was, however, some evidence of guesswork on the part of the weaker candidates.

Question 3

This question was based on the topic of non-trading organisations. Candidates were required to name accounting terms, explain the entries in a subscriptions account and to prepare a receipts and payments account.

- (a) Three accounting terms used by a business were given and candidates were required to state the equivalent term used by a non-trading organisation. Most candidates were able to earn all the three marks available.
- (b) A subscriptions account was presented and candidates were required to explain each of the entries within this account and to state where the double entry would be made. It was very disappointing that a large number of candidates were unable to provide satisfactory answers. Many answers were vague and imprecise. A number of candidates appeared to believe that the item "bank \$5850" showed the amount of money in the bank, and that the item "income and expenditure \$4500" was the actual surplus or deficit for the year. A credit balance on a subscriptions account represents subscriptions prepaid by members, and a debit balance represents subscriptions owing by members.

Candidates are advised to study the published mark scheme carefully and to ensure that they practice answering this type of question.

- (c) Using given data, candidates were required to prepare a receipts and payments account. Many candidates were able to earn high marks for this section of the question.

Common errors included -

using inaccurate details, such as “purchases” and “sales” for the purchase and sale of the asset
adjusting the items of insurance and general expenses for the prepayment and accrual
omitting the amount received for subscriptions (\$5850)
failing to balance the account
completely reversing the account.

Question 4

The depreciation and disposal of fixed assets was the topic of this question. This is obviously a section of the syllabus which many candidates find extremely difficult. Candidates are advised that study time must be devoted to this topic by reading the relevant chapter in appropriate textbooks and working through as many examples as possible.

- (a) Candidates were required to name one accounting principle which is applied when fixed assets are depreciated. The expected answer was either the principle of prudence or the principle of matching. It was disappointing to find many candidates naming unrelated principles such as business entity and going concern.

Having named the principle, candidates were asked to explain why that principle is applied. When explaining the principle of prudence, many candidates were able to explain that the profit should not be overstated, but failed to mention the fact that the fixed assets should also not be overstated. When explaining the principle of matching, many candidates made very vague statements. They were expected to explain that this principle ensures that the loss in value of fixed assets is spread over the period in which they are earning revenue.

- (b) Using given data, candidates were required to prepare the ledger accounts for motor vehicles, provision for depreciation of motor vehicles and disposal of motor vehicles. Accounts in either “T” format or three column running balance format were equally acceptable.

It was expected that the majority of candidates would be able to make the necessary entries for the purchase of the motor vehicles and the annual depreciation charge. It was disappointing to find that a large number of candidates failed to observe the basic principles of double entry. The wording in the details column was often totally incorrect. In the asset account, the registration numbers of the vehicles were often entered in the details column instead of the name of the account where the corresponding entry was made (P Drury account). In the disposal account the word “Bank” was often entered in the details column instead of the name of the corresponding account (Remuera Traders account). Entries in the accounts were often undated, or incorrectly dated.

The disposal of the motor vehicle proved to be a problem for many candidates.

- (c) Candidates were required to state the entries in relation to motor vehicles which would appear in the profit and loss account. The depreciation of motor vehicles (\$5000) would be debited and the profit on disposal of motor vehicle (\$500) would be credited. Credit was obviously given for the correct use of the candidates’ own figures.

Question 5

Accounting ratios and their interpretation and the problems of inter-firm comparison were the topics covered by this question.

- (a) Using given data, candidates were required to calculate four ratios. There were some excellent answers. Some candidates, however, failed to follow the instruction about calculating the current ratio and quick ratio to two decimal places.

Marks were also lost on the calculation of the collection period for debtors and the payment period for creditors. These should be calculated using the credit sales and credit purchases respectively (not the total sales and total purchases). The instruction to round the answers up to the nearest whole day was often ignored. Candidates are reminded that they should specify what their answer represents (an answer of "41" is meaningless: it should be expressed as "41 days").

- (b) Candidates were required to suggest a possible reason which could account for the change in the current ratio and a possible reason which could account for the change in the quick ratio. The answers to this section were marked according to the ratios shown in (a). Many candidates were able to provide acceptable answers such as increase in creditors or decrease in debtors for the current ratio and increase in the proportion of current assets in the form of stock or increase in bank overdraft for the quick ratio. Other candidates offered vague answers such as "change in current assets" which were not acceptable.

- (c) Candidates were required to suggest two possible reasons which could account for the change in the collection period for debtors and two possible reasons which could account for the change in the payment period for creditors. The answers to this section were marked according to the ratios shown in (a). It was somewhat disappointing to find that many candidates were unable to provide only one acceptable reason in each case. Many candidates incorrectly believed that these ratios were affected by an increase or decrease in the total of the debtors or creditors, or by an increase or decrease in the total sales and total purchases. Some candidates mentioned that not allowing debtors discount could affect the collection period (and similarly not receiving discount from suppliers): but they failed to specify that they were referring to cash discount not trade discount.

- (d) Three factors which should be considered when making inter-firm comparisons were required. It was expected that candidates would use the information given about the business described in the question as a basis for this section. There were some very pleasing responses and many candidates earned good marks. Unfortunately some answers were somewhat vague and imprecise and so could not be awarded marks.