

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	C	21	D
2	A	22	B
3	C	23	D
4	C	24	C
5	A	25	D
6	B	26	C
7	B	27	D
8	D	28	A
9	C	29	D
10	B	30	B
11	A	31	A
12	A	32	A
13	B	33	A
14	B	34	B
15	B	35	D
16	D	36	B
17	B	37	D
18	C	38	C
19	C	39	C
20	A	40	A

General comments

There were 6597 candidates (compared to 6003 in November 2007). The mean mark was 23.2 out of 40 (compared to 23.1 in November 2007). The standard deviation was 7.2 (compared to 7.6 in November 2007).

Judged against the accessibility of 60-90% one of the questions proved to be slightly easier than anticipated. Seven questions were regarded as slightly difficult, six questions proved to be more difficult than anticipated and a further six questions proved to be much more difficult than expected.

All the questions were within the Core Syllabus.

Comments on specific questions

Question 10

60% correctly identified the answer, B. It was disappointing to find 25% incorrectly believing that when goods are returned the *customer* issues a credit note.

Question 11

It was disappointing to find that only 13% correctly identified A as the answer. 63% suggested B and 22% suggested C: these candidates failed to appreciate that the balance on the account would be affected by double the amount of the credit note.

Question 14

Whilst the answer was selected by 41%, the numbers of candidates selecting the other options indicates a substantial degree of guesswork. It was expected that most candidates would understand how the petty cash imprest is restored.

Question 15

49% correctly selected the answer, B. Option A was selected by 31%. These candidates had obviously deducted 25% from the list price rather than deducting the trade discount first and then the cash discount separately.

Questions 17, 18, 20 and 22

The statistics for these questions show that many candidates do not appear to understand the fundamental principles of double entry.

In **Question 17**, 78% realised that the total of the purchases returns book should be posted to the purchases returns account, but only 46% knew that the entry would be on the debit side of the account. In **Question 18**, 90% recognised that the accounts involved would be the debtor and the sales, but only 46% correctly selected C as the answer. In **Question 20**, 92% knew that the two discounts would appear on opposite sides of the trial balance, but 25% incorrectly selected option B. In **Question 22** the answer, B, was selected by 51%, but the selection of the other options indicates a substantial degree of guesswork.

Question 21

The answer was selected by 52%. It was disappointing to find 24% confusing an error of commission with an error of principle.

Question 23

This should have been a relatively straightforward question. The selection of the options indicates a substantial degree of guesswork. It was expected that most candidates would know that a bank reconciliation statement is prepared by the trader and is not part of the double entry system.

Question 24

75% recognised that the un-presented cheques and the un-credited deposits have the opposite effect on the bank balance, but the answer, C, was selected by only 63%.

Questions 25 and 26

Both these questions concerned year-end adjustments. Many candidates appeared to have a problem with this topic.

In **Question 25** the statistics indicate a substantial degree of guesswork. In **Question 26**, the answer, C, was correctly selected by 50%, but 42% were split between A and D.

Question 27

54% correctly identified the answer, D. This should have been a relatively straightforward question, but the statistics indicate that many candidates are doubtful about exactly what costs are regarded as capital expenditure.

Question 29

It was anticipated that the majority of candidates would select the answer, D. It was obvious that many candidates do not understand the phrase "net realisable value".

Question 33

It was very disappointing to find that only 30% were able to identify the question, A. The statistics indicate a substantial degree of guesswork. This was expected to be a relatively easy question and it was surprising to find 45% believing that partners' drawings are entered in an appropriation account

Questions 34 and 35

These questions involved the calculation of a missing figure from incomplete records. The statistics indicate a substantial degree of guesswork. Many candidates appear to have problems in this area of the syllabus.

In **Question 34** only 46% correctly selected the answer, B. The rest of the candidates were unable to correctly calculate the net profit from the given information. It had been anticipated that the majority of candidates would be able to select the answer to **Question 35**. It was disappointing to find 32% believing that bad debts would not be included in the calculation of credit sales.

Question 38

It was disappointing that only 20% were able to identify C as having an effect on the working capital. Candidates should have recognised that the other options affected items *within* the working capital but did not affect the overall amount.

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Paper 2

General comments

Candidates' performance varied widely on this question paper. Although there were many good scripts and evidence that many Centres had worked hard to prepare their candidates, there were areas which candidates found very challenging. There were some questions with good marks available for most candidates, but other questions required analysis and thought and many candidates found these hard.

Most of the short questions in **Question 1** were well answered but weaker candidates seemed to be offering a variety of answers in the hope that one or more may have been correct. **Question 2(a)** was generally well answered, although many candidates answered part **(b)** poorly, and answers to parts **(c)** and **(d)** were variable. All the parts to **Question 3** were well answered. Candidates found both parts of **Question 4** very difficult and although some answered part **(a)** well, very few gave good answers to part **(b)**. Candidates also found **Question 5** difficult, although the question was examining a part of the syllabus on which similar questions have been set before and should have been familiar to candidates and Centres.

Most candidates completed all the questions and there did not seem to be evidence of time pressure. There was space on the question paper allocated for candidates to show their workings, where these were required, and as previously commented it is not possible to give credit to candidates who do not show workings. It is recommended that Centres always encourage their candidates to show how they worked out the answers to numerical questions.

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 candidates had difficulty with parts **(d)** and **(f)**.

(a) Most candidates were able correctly to give two examples of a book of prime (original) entry. Acceptable answers were:

- sales journal, day book or book
- sales returns journal, day book or book
- purchases journal, day book or book
- purchases returns journal, day book or book
- cash book, petty cash book
- journal (but not ledger)

(b) Most candidates were able correctly to identify the given items as an asset or a liability:

		Asset	Liability
(i)	Motor car	√ (1)	
(ii)	Accrued expenses payable		√ (1)
(iii)	Debtors	√ (1)	

- (c) The correct accounting principle is going concern.
- (d) Many candidates correctly gave the name of the account in Annie's ledger to be:
- (i) credited as the sales account, and
 - (ii) debited as Bill's account, or a debtor account
- However, many candidates reversed the order, and some referred to purchases in error.
- (e) Most candidates correctly stated that sales returns would be found in the trading and profit and loss account.
- (f) The error described is an error of complete reversal, although many candidates gave other incorrect errors as answers.
- (g) Most candidates correctly gave the profit and loss appropriation account as the account showing the division of the net profit of a partnership between the partners.
- (h) This required the calculation of two ratios from balance sheet figures given. Many candidates knew the correct formulae but there were a large number of errors in applying the formulae to the figures, and a large number of arithmetical errors. Candidates should note that when a calculation of a specified ratio is required the answer should be expressed as x.x : 1 and not just as x.x and not as a percentage (%) or qualified by any other factor such as "times" or "days".

The correct answers are:

- (i) Current ratio = current assets/current liabilities
 = $\frac{(\$49\,000 + \$24\,000 + \$3\,500)}{\$21\,000} = \$76\,500 : 1$
 = 3.6 : 1
- (ii) Quick ratio = current assets (less stock)/current liabilities
 = $\frac{(\$49\,000 + \$3\,500)}{\$21\,000} = \$52\,500 : 1$
 = 2.5 : 1

Question 2

This question required a good understanding of the sales and sales returns journals, and how to record transactions in the ledger. Attention to detail is most important when writing up books of account and marks are awarded for accuracy.

- (a) This required candidates to show entries in pro-forma sales and sales returns journals to record transactions listed in the question. Although the question was generally well answered, many candidates omitted details such as the date and sometimes combined the sales journal and the sales returns journal.

The correct entries are as follows:

Ombeya Sales Journal

Date September	Details	Reference	Amount \$
4	Hales Orchestra	INV 23	1 200
15	Sing Song Band	INV 24	450
28	Town School	INV 25	700
	Total		2 350

Ombeya
Sales Returns Journal

Date September	Details	Reference	Amount \$
17	Hales Orchestra	RT 7	300
	Total		300

- (b) This required the entries in the journals to be posted to ledger accounts and for transfers to trading account to be shown. There was considerable confusion in making the postings, and many ledger accounts were completely wrong. Even where the journal information had been correctly credited, or debited, the transfer to trading account was omitted. Many candidates thought the transactions were purchases, in error, and earned no marks.

The correct entries in the ledger accounts are as follows:

Sales account			
30 Sept	Trading a/c	2 350	30 Sept Total Sales 2 350
Sales returns account			
30 Sept	Total returns	300	30 Sept Trading a/c 300
Hales Orchestra account			
4 Sept	Sales	1 200	17 Sept Sales returns 300
Sing Song Band account			
15 Sept	Sales	450	
Town School account			
28 Sept	Sales	700	

- (c) This question required candidates to show the journal entry to record the writing off of a bad debt. Marks were available for the account names, using the correct amounts and showing the correct entry as a debit or credit and giving an acceptable narrative. Many candidates became very confused between account names, often showing "Ombeya", "Bad debt provision", or "Profit and Loss account", none of which is correct, and many simply repeated the wording in the question as their narrative, which was not sufficient.

The correct journal entry was:

Date		Dr	Cr
10 October	Bad debts	450	
	Sing Song Band		450
Write off of bad debt from Sing Song Band			

- (d) This required candidates to state which accounting principle was being followed in writing off the bad debt: the correct answer was prudence, although many candidates gave matching, and others consistency.

Question 3

This question set out a scenario where a new business had been established and the proprietor had attempted to draw up a trial balance but had made some errors. Candidates were asked some theory questions, had to restate the trial balance correctly, and then complete a pro-forma Trading and Profit and Loss account for the period.

The question was well answered with many candidates earning most of the available marks.

- (a) This asked which accounting principle was being followed when the initial capital was deposited in a new business bank account. The correct answer was the business entity principle, and answers showing an understanding of this principle were accepted. Other answers giving a range of other accounting principles were not correct.
- (b) The question asked candidates to name the account into which an unexplained difference on a trial balance should be transferred. The correct answer is the suspense account, and other answers such as the "difference" account are not correct.
- (c) This asked candidates to prepare a corrected trial balance. Although this was well answered, there were some common errors. The most common was to include the closing stock as a debit balance. This was not correct, and as there was no opening stock (because the business was new) it resulted, in most cases, in a suspense account entry of the same amount as a credit. Candidates seemed not to notice this or if they did noticed it, they did not find it odd. It is recommended that candidates are encouraged to check their work and to notice apparently strange balances or entries. The correct trial balance is as follows:

Stella Maris
Trial Balance at 31 October 2008

	Debit	Credit
	\$	\$
Capital		10 000
Shelving & equipment	5 000	
Purchases	24 000	
Rent payable	6 000	
Sales		34 900
Stock at 1 May 2008		0
General expenses	2 500	
Bank	7 400	
	44 900	44 900

- (d) This asked candidates to complete a pro-forma trading and profit and loss account from the information given. Most gave a correct answer, but many became confused over the treatment of stock, and there were too many arithmetical errors where closing stock was added to purchases, the gross profit was shown as a loss, or the expenses were added to the gross profit in error. These are all careless errors, showing a lack of precision in an examination which requires accuracy, and marks are lost as a result.

The correct answer is below:

Stella Maris		
Trading and Profit and Loss Account for the six months ended 31 October 2008		
	\$	\$
Sales		34 900
Stock at 1 May 2008	nil	
Purchases	24 000	
	24 000	
Stock at 31 October 2008	5 300	
Cost of sales		18 700
Gross profit		16 200
Expenses		
Rent	6 000	
General expenses	2 500	
		8 500
Net profit		7 700

Question 4

This question was found to be difficult by many candidates, and very few completely correct answers were given. However, there were good marks available for candidates who could correctly calculate performance measures, from information given, and additional marks were available for commenting on the differences in these measures between the two businesses/restaurants concerned. But the Examiner specifically asked for business reasons to explain the differences, not accounting reasons, and many candidates did not appear to understand what was required.

- (a) The percentage of gross profit to sales could be derived directly from the information in the question: many candidates read the cost of sales figure as purchases, and adjusted for opening and closing stock: this was not necessary and did not give a correct answer. The percentage of net profit to sales could be derived from the gross profit less the expenses divided by sales, and where candidates had made mistakes in finding their gross profit but then correctly adjusted for expenses, they were given credit.

The rate of stock turnover could be found from the cost of sales and the average stock, and is usually expressed as a number of “times”, not as a percentage or a ratio. Candidates who made a correct calculation were given credit if their answer was clear.

Space was given on the question paper for workings to be shown, and if candidates do not use this space then credit cannot be given for any correct parts of their calculations even if their answer is partially correct.

Workings are as shown:

	Electra's restaurant	Zorba's restaurant
Sales	112 000	80 000
Cost of sales	<u>95 200</u>	<u>60 000</u>
Gross profit	<u>16 800</u>	<u>20 000</u>
Gross profit	16 800	20 000
Expenses	<u>5 600</u>	<u>8 000</u>
Net profit	<u>11 200</u>	<u>12 000</u>
Cost of sales	95 200	60 000
Average stock	$(2\ 000 + 2\ 500) / 2 = 2\ 250$	$(7\ 000 + 6\ 200) / 2 = 6\ 600$

The correct answers are:

	Electra's restaurant	Zorba's restaurant
(i)	$16\ 800 / 112\ 000 = 15.0\ %$	$20\ 000 / 80\ 000 = 25.0\ %$
(ii)	$11\ 200 / 112\ 000 = 10.0\ %$	$12\ 000 / 80\ 000 = 15.0\ %$
(iii)	$95\ 200 / 2\ 250 = 42.3\ \text{times}$	$60\ 000 / 6\ 600 = 9.1\ \text{times}$

- (b) Answers to this part were very poor. Many candidates simply stated that Electra sold more meals without commenting on the gross profit percentage, or that her opening and closing stock was less than Zorba without explaining what effect this might have. It seemed that even if the formula for the measures had been learnt, there was little understanding of what information the measures actually gave about the business.

Acceptable business reasons for the differences in gross profit and rate of stock turnover were:

- (i) Electra has lower prices per meal, Zorba charges more per meal.
Electra pays more for purchases, Zorba buys more cheaply.
- (ii) Electra turns over stock almost once a week; she may sell 'fast' food.
Zorba turns over stock more slowly; may have more varied menu, better quality meals, better storage facilities.

Question 5

This question was about understanding, calculating and accounting for depreciation on a fixed asset. The topic should be familiar as it is examined regularly, but although there were some good answers, many candidates were not able to show a clear understanding of the principles, had difficulty with calculations, and seemed unable to prepare the correct accounting entries to record the depreciation they had calculated. This was disappointing.

- (a) This asked candidates to state the purpose of providing for depreciation on a fixed asset and was not well answered. The correct answer was to show or measure the use of the asset over the period of its expected useful life. Many candidates thought the answer was to calculate the net book value, or to find the profit or loss on sale, but this is not correct.

- (b) This asked candidates to state which accounting principle is being followed when depreciation is provided on a fixed asset: most candidates did give the correct answer of prudence or matching.
- (c) The question asked for a calculation of depreciation on a given asset for two successive years on the straight line basis. The correct method is to take the original cost, subtract the expected scrap value, and spread the net amount over the expected useful life. In this case, this would give:

Cost \$9 000 less scrap value \$600 = \$8 400 spread over four years = \$2 100 per year.

The answer to (i) for the first year is therefore \$2 100 and since we are using the straight line basis, the answer to (ii) for the second year is also \$2 100.

Many candidates became confused between the amount of depreciation and the written down value and gave the written down value as their answer, many used the reducing balance method for the second year, and others made arithmetical errors.

- (d) This required candidates to show the entries in the Provision for Depreciation account for the two years concerned. Although there were some correct answers, this was not answered well. Many candidates showed the original cost of the asset in the account in error, others became very confused between debits and credits, balances were often carried and brought down incorrectly, and few accounts actually balanced. Centres are recommended to pay attention to the fundamentals of preparing these accounts.

The correct account should have looked like:

Provision for depreciation account					
2008				2008	
30 June	Balance carried down	2 100		30 June	Profit & loss account
		2 100			2 100
				1 July	Balance brought down
					2 100
2009				2009	
30 June	Balance carried down	4 200		30 June	Profit & loss account
		4 200			2 100
					4 200
				1 July	Balance brought down
					4 200

- (e) This asked candidates to state the net book value of the asset at the end of the two years which would be the difference between the original cost and the two years depreciation. Candidates who calculated this correctly but used their incorrect depreciation figures were given credit.

Most candidates were able to show an acceptable calculation.

The correct answer was \$9 000 – (\$2100 + 2100) = \$4 800.

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<p>Paper 3</p>

General comments

This structured examination paper was designed to discriminate between candidates obtaining Grades A to C. The syllabus recommends that only those candidates who have studied the Extended Curriculum and who are expected to achieve at least a Grade C should be entered for this paper. The questions were set mainly on the Extended Curriculum and were all compulsory. Some of the marks should have been relatively easy to earn, but other marks could only be earned by a demonstration of a greater degree of knowledge and understanding. A number of candidates would have benefited from further study before attempting an examination of this level.

The benefit of thorough preparation for an examination cannot be emphasised enough. Candidates are advised to obtain and work through past examination papers and relevant exercises in textbooks. Knowledge of basic accounting procedures is essential in order to gain a pass grade.

Candidates are reminded that it is important to read each question carefully before attempting an answer. On a number of scripts answers did not correspond with the question being asked. For example the answer to **Question 1(d)** frequently stated a disadvantage of paying creditors *after* the due date rather than *before* the due date. It is also important to show calculations where appropriate. For example marks were sometimes lost on **Question 4(b)** for example because of the lack of workings. Where an incorrect figure is shown no marks can be awarded if there are no supporting calculations: where calculations are provided it may be possible to award some of the available marks.

Where a question specifies a number of items required, for example "State **two** ways", "State **one** advantage" candidates are expected to follow these instructions. It is not acceptable to provide a list of several items and expect the Examiner to select the correct ones.

Some candidates lost marks because of lack of attention to detail. In ledger accounts marks were lost if the accounts were not balanced where appropriate. The use of incorrect descriptions within ledger accounts also resulted in the loss of marks. Ignoring an instruction to provide an answer to two decimal places or to round an answer up to the next whole day caused marks to be lost needlessly.

Comments on specific questions

Question 1

Candidates were required to prepare the accounts of two creditors in the ledger of a trader, calculate the payment period for creditors and answer various theory questions.

- (a) One advantage of dividing the ledger into three specialist areas was required. It was pleasing to find that many candidates were able to provide a satisfactory response. A few incorrectly believed dividing up the ledger would *reduce* errors: it should enable checking procedures to be used more effectively, but will not necessarily reduce the number of errors.
- (b) Candidates were required to state in which ledger three accounts would appear. This should have been a very easy question and the number of incorrect answers was disappointing. It was not uncommon for candidates to state, incorrectly, that the purchases account appears in the purchases ledger and the sales return account appears in the sales ledger.

- (c) Using given data, candidates were required to write up the accounts of two suppliers in the ledger of a trader. Ledger accounts in the "T" format or the three column running balance format were equally acceptable. Once again, this should have been a relatively straightforward question. Common errors included:
- Failure to reduce the purchases and purchases returns amounts by the trade discount
 - Incorrect calculation of the amount paid and the cash discount deducted
 - Inappropriate or inaccurate wording in the accounts
 - Omission of dates
 - Complete reversal of the accounts
- (d) It was pleasing that the majority of candidates successfully calculated the payment period for creditors.
- (e) Most candidates correctly interpreted their answer to (d) and gave an appropriate answer to (e).
- (f) Many candidates correctly explained that one advantage of paying creditors early was that cash discount may be available. Unfortunately a few candidates simply referred to "discount" without specifying "cash discount" or stated that "trade and cash discount" may be available.
- (g) It would appear that many candidates misread this question and described a disadvantage of paying creditors after the due date. Candidates were expected to refer to the fact that the trader is deprived of the use of the money earlier than necessary.

Question 2

Candidates were required to answer theory questions on capital and revenue payments and receipts. They then had to calculate a trader's correct net profit and state the double entries required to correct various errors.

- (a) (i) An explanation of the difference between capital expenditure and revenue expenditure was required. It was pleasing to find many correct responses. A few candidates gave imprecise answers such as "money spent on assets" without specifying *fixed* assets. Some candidates simply gave an example of each type of expenditure rather than attempting an explanation.
- (ii) An explanation of the difference between capital receipts and revenue receipts was required. Only the more able candidates were able to offer a reasonable explanation. Generally the responses were very poor. Many referred to the business document of a receipt. They did not seem to have any knowledge of capital receipts (for example, amounts received from the sale of fixed assets) and revenue receipts (for example, amounts received from sales and other income which is recorded in the trading and profit and loss account).
- (b) Candidates were required to prepare a statement correcting a trader's net profit after errors were made in the preparation of the trading and profit and loss account. It was pleasing that many candidates recognised that the purchase of a motor vehicle and the proceeds of sale of an old motor vehicle should be excluded from the profit calculation. Many candidates failed to realise that the commission received and the purchase of stationery should be included as they both affected the net profit.
- (c) Candidates were required to state one reason why a suspense account is opened when the totals of a trial balance fail to agree. Acceptable answers included enabling the trial balance to balance and allowing the preparation of draft final accounts. It was a little disappointing that many candidates believed that a suspense account actually assists in *locating* errors.
- (d) A table had to be completed showing the ledger entries required to correct three errors. The answers to this question were generally very disappointing. Common errors included:
- Error 2 – Crediting equipment account or sales account rather than disposal of equipment account
 - Error 3 – Failing to recognise that the amount had to be doubled in order to correct the error
 - Error 4 – Failing to recognise that two double entries were required – one to cancel the original error and one to make the correct entries for the recovery of the bad debt previously written off

Question 3

This question firstly required candidates to calculate a trader's credit sales and credit purchases. Candidates then had to explain the difference between mark-up and margin and to calculate the closing stock by means of a trading account applying the principle of mark-up.

- (a) It was equally acceptable to show the calculation of the credit sales and credit purchases in the form of an arithmetic calculation or by means of total debtors and total creditors accounts. It was very pleasing to find a large number of candidates successfully calculating the correct figures for credit sales and credit purchases. A few candidates had problems with the treatment of bad debts and discounts allowed and received.
- (b) It was pleasing to find that the majority of candidates were able to explain the difference between mark-up and margin.
- (c) Candidates had to prepare a trading account to show the "missing" figure of closing stock. A horizontal account and a vertical account were both equally acceptable. Most candidates successfully inserted the figures for sales and purchases calculated in (a). The goods taken for own use were sometimes omitted or not treated correctly. It was disappointing that a large number of candidates did not calculate the gross profit correctly. Applying the principle of mark-up this should have been 20/120 (or 1/6) of the sales: it was quite common to see a figure equal to 20/100 (1/5) of the sales. Despite using an incorrect gross profit, many candidates were able to earn an own figure mark for the insertion of a closing stock.

Question 4

The first part of this question tested candidates' understanding of entries in a cash book. The question then went on to test whether candidates could calculate and understand working capital and return on capital employed.

- (a)
 - (i) An explanation of two entries in a trader's cash book was required. The responses were generally disappointing. Many candidates were able to correctly state where the double entries would be made, but were often unable to explain the actual transactions. In the first transaction there was much confusion regarding the dishonoured cheque: many failed to explain that it was a cheque received from B Ngwenya which had been dishonoured by the bank. In the second transaction many candidates mistakenly believed that some goods had been sold on credit, or that goods had been sold for cash and a discount had been allowed. They failed to appreciate that this represented receipts from sales some of which was retained in cash and some of which was paid into the bank.
 - (ii) It was pleasing that most candidates recognised this entry as being a contra entry. However, it was very disappointing that a large number of candidates believed that this represented cash withdrawn *from* the bank: it actually represented a transfer *from* the cash to the bank.
 - (iii) A large number of candidates successfully identified the discount as being discount received and were able to calculate the percentage as 2½%. This represented the discount (\$6) as a percentage of the total amount owing (\$234 + \$6). A few candidates incorrectly calculated the \$6 as a percentage of the amount actually paid (\$234).
 - (iv) Candidates were required to explain the two balances shown at the end of the cash book. The explanations provided were often limited to either repeating the question ("it is the balance brought down") or a statement to the effect that it was the difference between the two sides. It was rare to find an answer actually explaining that the \$70 represented the cash remaining in the business on that date and that the \$1515 represented the bank overdraft at that date.
 - (v) Very few candidates provided correct answers. The total of the discount column on the debit side would be debited to the discount allowed account and the total of the discount column on the credit side would be credited to the discount received account.

- (b) As expected, the majority of candidates knew the formula for calculating working capital. It was disappointing that many candidates appear not to have read the question carefully as they totally omitted the cash and bank balances from their calculation. A few candidates did include the cash and bank balances but selected the balances on 15 October rather than those on 1 October. Very few candidates calculated the correct figure of \$3030.
- (c) Two ways in which the trader could increase her working capital were required. Only the more able candidates were able to offer acceptable responses. The suggestions put forward by many candidates involved changes *within* the working capital (for example paying creditors, and purchasing more stock) which would not affect the overall amount of working capital.
- (d) Two disadvantages of an insufficient amount of working capital were required. Many candidates did appreciate that the trader would have problems paying debts when they fell due. Unfortunately some of the answers tended to be too similar (for example “finds it difficult to pay creditors” and “finds it difficult to pay expenses”) and so only one of the two available marks could be awarded.
- (e) Most candidates successfully calculated the return on capital employed. A few candidates failed to show the calculation to two decimal places.
- (f) Most candidates compared their answer to (e) with the percentage for the previous year and were able to state correctly whether the trader would be satisfied with the change in the percentage. Only the very able candidates were able to offer a reasonable explanation. Where the percentage had fallen it showed that the capital was not being employed as effectively as in the previous year.

Question 5

Candidates were presented with a balance sheet of a partnership containing errors and were required to prepare a corrected balance sheet. The capital accounts of two partners had to be written up using data provided. Finally candidates were required to answer a theory question about maintaining a capital and current account for each partner.

- (a) The balance sheet of a partnership business had to be corrected and presented in a suitable format. Most candidates prepared a vertical balance sheet, but a balance sheet in horizontal format was equally acceptable. The fixed assets, current assets and current liabilities sections of the balance sheet were often correct. Common errors included the following:
- Incorrect treatment of the depreciation of the equipment
 - Not deducting the provision for doubtful debts from the debtors
 - Inclusion of the bank statement balance rather than the cash book balance
 - Failure to show the working capital (net current assets)

The section of the balance sheet showing the partners' capital and current accounts was, generally, not well done. Many candidates failed to show the figures separately for each partner. Other candidates did show separate figures for each partner but made no distinction between capital and current accounts. Candidates must be made aware of the importance of presenting the capital and current account section of a partnership balance sheet in an acceptable format. This is clearly a section of the syllabus which requires attention.

- (b) The capital accounts of two partners had to be prepared showing the opening balances, a transfer from a current account, the introduction of additional capital and the closing balances. Accounts in the “T” format or the three column running balance format were equally acceptable. Whilst there were some completely correct answers, others included extraneous items such as profit share and drawings. Marks were also lost because of the use of inappropriate or inaccurate wording in the accounts and the omission of dates.
- (c) Candidates were required to explain one advantage of maintaining both a capital and a current account for each member of a partnership. It was disappointing that very few candidates were able to provide an adequate explanation. Some candidates attempted to explain why each partner should have a separate account rather than having one joint capital account, which was not what the question required.