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# ACCOUNTING

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

## General comments

This was the sixth sitting of this paper. There were 4058 candidates (six hundred more than the previous year). The mean mark was 22.9 out of 40 and the standard deviation was 6.6.

Judged against accessibility limits of 60 – 99%, no question was too easy and twenty questions were too difficult. All the items were within the Core Syllabus.

## Comments on specific questions

### **Question 5**

50% incorrectly included the loan to Imran (\$1000) in Hussein's liabilities, only 34% selecting the key **B**.

### **Question 8**

Only 31% correctly chose **D**, the same proportion thinking that rent owing to **X** decreased the income and increased the current liabilities in **X**'s final accounts (option **B**). 16% chose **A** and 22% chose **C**, indicating substantial guesswork.

**Question 10**

Whilst 42% correctly chose **C**, 30% thought that the owner's electricity, paid for by the business, should be adjusted by debiting electricity and crediting drawings (option **D**).

**Question 17**

There was confusion as to how discount allowed by a supplier is recorded in a customer's books; the customer treats this as *discount received* and debits the supplier's account, the correct option (**B**) chosen by 27%. The same proportion chose **A**, whilst 28% selected **C** and 17% chose **D**, the two options involving discount allowed. Such responses suggest a large element of guesswork.

**Question 21**

Only 28% selected the key **C**, others failing to realise that carriage inwards and carriage outwards are both shown in a trial balance as *debit* balances as *they are both paid by a business*. Selection of option **A** (32%) and **D** (36%) suggest widespread misunderstanding of this point.

**Question 24**

The 29% who chose option **C** incorrectly identified the unpresented cheques as \$700 (which was actually the uncleared bank deposit). 37% chose the key **D**.

**Question 25**

19% transposed the cheques issued and deposited (not shown on the bank statement) in incorrectly selecting **D**. Others also failed to realise that the bank account was overdrawn in choosing **C** (38%) or **A** (19%). Only 24% chose the key **B**, suggesting uncertainty in handling the topic and also failure to read the question carefully.

**Question 26**

A majority (56%) wrongly selected **B**, not calculating the rent charge as  $9/12 \times \$20\,000$  (\$15 000), but taking it to be simply the two payments totalling \$10 000 made during 2001. A further 20% did not adjust rent for a period of nine months, choosing \$20 000 (option **D**). Only 16% chose the key, **C**, underlining widespread misunderstanding of a basic topic.

**Question 28**

The basis on which stock should be valued – the *lower* of cost and net realisable value - does not appear to be widely known, with only 12% correctly choosing **A**. 59% chose only the net realisable value (option **B**) whilst 25% chose only the cost of \$5 500 (option **C**).

**Question 31**

Whilst 46% chose the key **A**, 34% did not apply the reducing balance method, but used the straight line method in choosing option **B**.

**Question 33**

46% realised that a cash withdrawal does not affect net profit but does decrease current assets and selected the key, **C**. However, a similar number (45%) thought the opposite to be true and chose **B**.

**Question 36**

33% added the salary of \$15 000 to 2/5 of \$55 000 when incorrectly choosing option **D**, with 29% choosing simply \$22 000 (option **B**). The correct answer is  $\$15\,000 + 2/5 \text{ of } \$40\,000 = \$31\,000$  (option **C**), but only 22% chose this, indicating considerable uncertainty in handling the topic.

**Question 39**

Failure to understand the nature of working capital was evident, with only 26% correctly choosing **C**. 23% thought that receipt of a cheque from a debtor (option **A**) increases working capital whereas this simply re-distributes that capital from debtors to bank. Similarly, option **B** (chosen by 30%) and option **D** (chosen by 20%) merely maintain the balance between current assets and current liabilities at a given point in time and do not affect the actual amount of working capital.

<p><b>Paper 0452/02</b></p>
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<p><b>Paper 2</b></p>
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### General comments

Candidates' overall performance was satisfactory, with some excellent scripts being submitted. A sound grasp of basic principles, as applied to a range of topics, was evidenced by the many good answers to **Question 1**. A large number obtained full marks for **Question 2 (a)**, but answers to parts **(b)** and **(c)** were often very disappointing, with significant loss of marks due to careless mistakes and omissions. Answers to **Question 3** were generally satisfactory, although some balance sheet presentations showed uncertainty. For a majority, **Question 4** presented the most difficulty, particularly the opening journal entries in part **(a)**, where much confusion was in evidence; error corrections in part **(b)** also revealed widespread inability to handle quite straightforward problems. **Question 5 (a)** produced some very good answers, with full marks often being awarded for well laid out trading and profit and loss accounts; answers to part **(b)** were more variable, with considerable misunderstanding shown about the matching principle and its application.

A majority of candidates attempted all the questions. There was no evidence of candidates having insufficient time in which to complete the paper.

### Comments on specific questions

#### **Question 1**

This consisted of a series of short answer questions which produced many good answers.

- (a)(i)** The document sent with goods returned by a customer to a supplier, was generally known to be a *debit note*, although credit note was offered by a significant minority.
- (ii)** Most candidates correctly identified the prime (original) entry books as:
- Sales Returns (or Returns Inwards) Journal
  - Purchase Returns (or Returns Outwards) Journal
- (b)** Whilst a majority knew that the balance of the Discounts Received account is transferred to the profit and loss account at the financial year end, many offered the trading account; trial balance sheet was also offered.
- (c)** Calculation of the rate of stock turnover was often made correctly as follows:

$$\frac{\text{Cost of goods sold}}{\text{Average stock}} = \frac{\$60,000}{\$5,000} = 12 \text{ times}$$

The main weakness was failure to calculate average stock correctly.

- (d)** Calculations of the amount paid to a supplier after deducting cash discount was:

$$\$5,000 \times \frac{5}{200} = \$125 \qquad \$5,000 - 125 = £4875$$

This caused little difficulty for a large majority of candidates.

- (e)** Identification of the accounting principle requiring similar treatment to be applied to similar items - consistency - produced a number of incorrect responses including matching and duality.
- (f)** Whilst a majority knew that bank charges appear in the profit and loss account, quite a number offered the balance sheet or trial balance.

- (g) A large majority correctly suggested reasons why suppliers send statements to their customers with 'reminder to pay' and 'showing the amounts due' being popular choices.
- (h) Most candidates recognised that, before a bank reconciliation statement is prepared, the bank account (or bank columns of the cash book) must be updated, with only a few suggesting cash account.
- (i)(i) Calculation of working capital was very often made correctly as follows:

Current assets	\$	\$
Stock	18,000	
Debtors	<u>9,000</u>	27,000
Less current liabilities		
Bank overdraft	2,000	
Creditors	<u>16,000</u>	<u>18,000</u>
		<u>9,000</u>

The commonest error was inclusion of the bank overdraft as a current asset.

- (ii) Calculations of the quick ratio caused problems for many, confusion with the current ratio being common. The correct answer is:

$$\frac{\text{Current assets - stock}}{\text{Current liabilities}} = \frac{\$9,000}{18,000} = 0.5:1$$

Candidates also lost marks by not expressing their answer as a ratio, offering instead, e.g. ½, 1:2 or 3:2.

## Question 2

- (a) Writing up a trader's sales and sales returns journals from a given list of transactions was usually well handled, a large majority gaining full marks for the correct details and totals of \$2650 and \$250 respectively.
- (b) Preparation of the ledger account entries in the trader's sales and nominal ledgers produced many disappointing responses, marks being lost through undated entries, incorrect account details and entries on the wrong sides of the accounts. A particularly common error in the nominal ledger was to show individual transactions instead of the month's totals.

The accounts are shown below in 'T' form, running balance format also being acceptable.

<u>Sales Ledger</u>					
<u>Whizzo Products account</u>					
2003			2003		
Sept 6	Sales	400	Sept 14	Returns	100
<u>T Culpepper account</u>					
2003			2003		
Sept 10	Sales	750	Sept 26	Returns	150
<u>Sam Beesi account</u>					
2003					
Sept 20	Sales	1500			

<u>Nominal Ledger</u>			
<u>Sales account</u>			
2003			
	Sept 30	Credit sales for month	2650

  

<u>Sales Returns account</u>			
2003			
	Sept 30	Returns for month	250

- (c) This part was also poorly answered; account details were often wrongly shown ('purchase' instead of 'sales', 'cash' or 'cheque' instead of 'bank') or entries were reversed, whilst dates were often omitted. The ledger account is shown below in 'T' form (running balance format also acceptable).

<u>Sales Ledger</u>					
Rachel Smith account					
2003			2003		
Oct 3	Sales	800	Oct 12	Bank	780
				Discount	20
		<u>800</u>			<u>800</u>

### Question 3

Better candidates handled the preparation of a partnership balance sheet in good style (including calculation of working capital, \$15,000) to gain full marks. However, others often failed to identify working capital or calculated it incorrectly. Treatment of the partners' current accounts also caused problems, with some candidates including the balances as current assets or current liabilities. Layouts were variable in quality and style, with classification of items sometimes inconsistent or illogical. The balance sheet, in accepted vertical form, is shown below. The 'T' or horizontal format was also acceptable, with the working capital shown outside the balance sheet proper.

<u>Frankie and Johnny</u>			
<u>Balance sheet as at 31 August 2003</u>			
	Cost	Depreciation	Book value
Fixed assets	\$	\$	\$
	<u>85,000</u>	<u>10,000</u>	75,000
Current assets			
Stock		8,000	
Debtors		14,000	
Bank		<u>5,000</u>	
		27,000	
Less Current liabilities			
Creditors		<u>12,000</u>	
		Working capital	<u>15,000</u>
			<u>90,000</u>
Financed by:	<u>Frankie</u>	<u>Johnny</u>	
Capital Accounts	5,000	30,000	80,000
Current Accounts	<u>15,000</u>	<u>(5,000)</u>	<u>10,000</u>
	<u>65,000</u>	<u>25,000</u>	<u>90,000</u>

**Question 4**

For most candidates this proved to be the most difficult question on the paper, particularly part **(a)(i)**, which was often poorly answered.

- (a)(i)** Journal entries to record the opening of a new business were only rarely all correct. Whilst a good number of candidates showed the freehold premises and stock of furniture correctly as debit entries, the corresponding credit entries (part of the opening capital) were variously shown as 'cash' or 'sundries' or were completely omitted. The sums paid into the business bank account (\$5,000 and \$7,000) were frequently shown as debits to 'cash' rather than 'bank'. Very few correctly showed the credit to Capital account of \$33,000 and quite often the loan of \$7,000 was shown as a debit (i.e. an asset).

The journal entries are shown below:

<u>Polly Glotte</u> <u>Journal</u>		
	Dr	Cr
	\$	\$
Shop premises	20,000	
Stock	8,000	
Bank (5,000 + 7,000)	12,000	
Loan, Uncle Sven		7,000
Capital		33,000

- (i)** Preparation of journal entries to correct four errors was handled with more success overall, although a number of candidates were again inadequately prepared. Many candidates appeared to assume that a suspense account is always part of error correction and created incorrect entries accordingly. Error 1 (omission) and error 4 (principle) were properly corrected more often than errors 2 (original entry) and 3 (commission). Lack of basic knowledge and a tendency often to over-complicate the answer combined to produce a very moderate performance in what was a comparatively straightforward exercise. The journal entries are shown below:

1. Shop fittings (F and F)	6,000	
Quickbuild Supplies		6,000
2. Sales	9	
S Holmes		9
3. J Robertshaw	1,000	
J Robertson		1,000
4. Office Equipment	3,000	
Purchases		3,000

- (b)** Attempts to explain the effects on final accounts of failing to correct an error of principle were very variable, with a number of confused answers.
- (i)** Better candidates understood that the inflation of purchases in the trading account reduced both gross and net profits. Others, however, thought that profits would be overstated.
- (ii)** Quite a number correctly stated that fixed assets would be understated in the balance sheet, but only a minority linked this to the corresponding understatement of net profit (and hence, capital). Some mistakenly felt that working capital would be affected.

**Question 5**

- (a)** The preparation of a builder's trading and profit and loss account was well handled by the majority, with many obtaining full marks. There was some uncertainty over the treatment of purchases returns, but adjustments for the prepaid insurance, accrued motor expenses and vehicle depreciation were often made correctly. This was an encouraging outcome; candidates whose performance was otherwise only moderate, gaining valuable marks. The account is given below in vertical form, the 'T' format also being acceptable.

<u>Elmer Gantry</u>			
<u>Trading and Profit and Loss Account for the year ended 30 September 2003</u>			
	\$	\$	\$
			100,000
Less			
		12,000	
	66,000		
	<u>4,000</u>	<u>62,000</u>	
		74,000	
		<u>9,000</u>	<u>65,000</u>
			35,000
Less	4,250		
	<u>250</u>	4,000	
		6,000	
		1,000	
	2,600		
	<u>400</u>	3,000	
		5,000	
		<u>2,000</u>	21,000
			<u>14,000</u>

- (b)(i) Required to state what is meant by the matching concept, responses were very mixed, only a minority providing a clear statement that costs incurred in an accounting period should be matched against the income of that same period. There was considerable confusion with duality ('for every debit there must be a matching credit') and quite often the formula, 'net profit = revenue - expenses' was given by way of explanation.
- (ii) Candidates who wrote off the point in (i) were usually unable to explain how matching was applied to the insurance expense in the profit and loss account. Few explanations went beyond stating that the prepayment of \$250 was deducted, only better candidates linking this to the time-frame of the accounting period involved and thus the underlying principle.

**Paper 0452/03**

**Paper 3**

### General comments

This structured examination paper was designed to discriminate between candidates obtaining Grades A to C. It is recommended that only those candidates who have studied the Extended Curriculum, and who are expected to achieve a Grade C, or higher, should be entered for this paper.

As usual, all the questions were compulsory and were set mainly on the Extended Curriculum. Some of the marks should have been relatively easy to earn, but other marks could only be earned if the candidate demonstrated a greater degree of knowledge and understanding.

Candidates must be made aware of the importance of showing calculations. An incorrect answer to a numerical question cannot gain any marks if no calculations are shown. Where calculations are shown, it is often possible to award some of the available marks, even though the final answer is incorrect. Some candidates also lost valuable marks through lack of attention to detail. This was very noticeable in ledger accounts. Examples include inaccurate descriptions, omission of dates, and failure to bring down balances on 'T' accounts.



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

This question involved the interpretation of an Asset Disposal account, the preparation of a Provision for Depreciation account, and a calculation of the effect on profit of an incorrect depreciation figure.

- (a) Candidates were provided with a Disposal of Motor Vehicles account containing four items and were asked to explain each entry in the account. Many of the answers were very disappointing. A significant number of candidates incorrectly stated that the item for motor vehicles represented the purchase of a motor vehicle on that date, and that the entry for provision for depreciation represented the depreciation written off for that financial year.

Candidates are advised that the Extended Curriculum not only requires that candidates should be able to prepare ledger accounts, but also that they should be able to interpret ledger accounts. Many candidates would benefit from further practice on the interpretation of accounts.

- (b)(i) From given data, candidates were required to prepare a Provision for Depreciation of Machinery account covering two years, using the reducing balance method of depreciation. The account was acceptable in either 'T' account format or in three column running balance format.

Some candidates produced very good answers and gained high marks. It was, however, disappointing to find some candidates losing marks through lack of attention to details such as dates, descriptions and balancing.

- (ii) Candidates were asked to state the effect on the net profit of including depreciation of machinery based on the straight line method instead of the reducing balance method. Only a minority of candidates achieved full marks on this question.

The depreciation of machinery using the straight line method should have been \$5160 per annum. Using the reducing balance method, the amount of depreciation for the year ended 31 July 2003 should have been \$2064 (or the candidate's own figure from the Provision for Depreciation account in part (b)(i)). A comparison of these figures should have shown that the net profit was understated by \$3096 (or the appropriate effect and amount using the candidate's own figures).

**Question 2**

This required candidates to answer four short theory questions relating to a manufacturing business and then to prepare a Manufacturing Account from given data.

- (a) Candidates were required to explain why a manufacturing business requires a Manufacturing Account, in addition to a Trading and Profit and Loss Account. Only a few candidates earned full marks. Many were able to state that a Manufacturing Account is required to calculate the cost of goods produced, but offered no further comment. In addition, it should have been explained that the figure representing the cost of goods produced is transferred to the Trading Account to allow the gross profit to be calculated.
- (b) Three terms used in connection with a manufacturing business had to be explained. Many candidates were able to give the formula used to calculate each of the items, but were not able to explain exactly what the terms meant.
- (c) From given data, candidates were required to select the appropriate items and to prepare a Manufacturing Account. Most candidates produced a vertical Manufacturing Account, though an account in horizontal format was equally acceptable. Some candidates wasted valuable time by also preparing Trading and Profit and Loss Accounts - which were not required. Candidates should be encouraged to read the requirements carefully before commencing their answer to a question. A significant number of candidates incorrectly attempted to include all the items listed in the question.

It was pleasing to find many candidates gaining high marks for this question. Of the other candidates, most were able to calculate the cost of raw materials consumed, but were unable to correctly calculate the prime cost. Indirect factory wages were often added to the raw materials consumed either instead of, or in addition to, the direct factory wages. The factory overheads sometimes included office expenses. It was disappointing to find a number of candidates deducting the factory overheads from the prime cost. The adjustment for opening and closing stocks of work in progress was sometimes made on the factory overheads instead of on the total of the prime cost plus the overheads.

**Question 3**

Using information provided, candidates were required to calculate a trader's credit sales, the collection period for debtors and the payment period for creditors. Interpretation of the collection period for debtors was required, together with comments on the results of delaying payment to creditors. Candidates were then required to apply the principle of 'mark up' to calculate a trader's closing stock.

- (a)** Candidates were required to calculate the credit sales of a trader. Details were provided of the opening and closing debtors, amounts received from debtors and discounts allowed. As no format was specified, the answer was acceptable either in the form of a calculation or a Total Debtors account. Where an incorrect answer was given without calculations, candidates lost all the available marks. Those candidates who provided calculations were often able to earn some of the available marks, even where the final answer was incorrect.

It was pleasing to find many candidates gaining full marks for this question. Some candidates, however, seemed unsure of the correct treatment of discount allowed. In a calculation this should be added to the amount received from the debtors, and in a Total Debtors account it should be recorded on the credit side/in the credit column.

- (b)(i)** Using the figure of credit sales calculated in **(a)**, candidates were required to calculate the collection period for debtors. An answer in days, weeks or months was acceptable. Marks were lost where candidates failed to specify what their answer represented. A number such as '28' is meaningless in this context. Marks were also lost where candidates 'rounded down' their answer. Using the correct figure for sales of \$40 000, the debtors collection period was 27.83 days or 28 days.
- (ii)** Candidates were asked to state whether the trader would be satisfied with the collection period for debtors. This required a comparison of the credit allowed (30 days) with the period of credit actually taken (the answer to **(b)(i)**).
- (c)(i)** Using the data provided, a calculation of the creditors' payment period was required. Once again, an answer in days, weeks or months was acceptable. As in **(b)(i)**, marks were lost when candidates simply gave a number as the answer and 'rounded down' their answer.
- (ii)** Two possible disadvantages of not paying creditors promptly were required. Many candidates were able to suggest two acceptable points. Some answers were considered too general to be acceptable. For example, stating that the trader would lose discount was considered unacceptable. The trade discount (if any) would have already been deducted when the goods were invoiced, only the cash discount (if any) would be lost if payment was delayed.

Acceptable responses included the following:

- cash discount may be lost
  - interest may be charged on overdue accounts
  - creditors may refuse further supplies of goods
  - creditors may insist on C.O.D. or cash purchases in future
  - the good relationship with suppliers may be damaged.
- (d)** Using a Trading Account, candidates were required to calculate the closing stock of a trader. Both vertical and horizontal Trading Accounts were acceptable. Despite the fact that a similar question appeared on Paper 3 in November/December 2002, many candidates were unable to calculate the stock figure. Most candidates correctly entered the sales, opening stock and purchases, but were unable to complete the account. This application of the principles of margin and mark up appears to be an area where many candidates would benefit from further study.

**Question 4**

This question required candidates to explain the term 'accumulated fund' and to calculate the accumulated fund of a non-trading organisation. Two ledger accounts of a non-trading organisation involving year-end adjustments also had to be prepared.

- (a) The majority of candidates were able to explain that the accumulated fund of a non-trading organisation is the equivalent of capital in a trading business, and that it represents assets minus liabilities. Very few candidates were able to explain how the annual surpluses (less any deficits) accumulate within the organisation to form the accumulated fund.

It was disappointing to find that many candidates believed that the accumulated fund represented actual money used to start the organisation, or money collected from subscriptions and/or fundraising activities.

- (b) From a list of assets and liabilities of a non-trading organisation candidates were required to calculate the accumulated fund. It was pleasing to find most candidates showing calculations and many candidates gaining full marks. However, the subscriptions prepaid by members caused some problems and many candidates incorrectly listed this item as an asset instead of a liability.
- (c) Using information provided, candidates were required to prepare a ledger account for the expense of insurance in the ledger of a non-trading organisation. Both accounts in 'T' format and three column running balance format were equally acceptable.

It was disappointing to find very few wholly correct answers. This is clearly a section of the syllabus where many candidates would benefit from further study. A common error was to omit dates. Inaccurate descriptions also resulted in the loss of marks. The terms 'B' and 'BBD' are not sufficient to describe the balance brought down. Similarly, the terms 'Owing' and 'Paid for the next year' are not regarded as appropriate.

- (d) The subscriptions account in the ledger of a non-trading organisation had to be prepared from information provided. Once again, accounts in both 'T' format and three column running balance format were equally acceptable. Many candidates also appeared to find this question difficult and there were very few who were able to gain full marks. Attention must be paid to dates and descriptions.

**Question 5**

Using data provided, a statement of corrected net profit had to be drawn up, followed by a Profit and Loss Appropriation Account of a partnership business.

- (a) Candidates were required to complete a statement of corrected net profit showing the effect of correcting four errors, and the resulting amended profit figure. It was pleasing to find some candidates gaining full marks, but these candidates were in the minority. Many candidates showed a lack of understanding of the effect of correcting errors on the net profit. In addition to being taught how to prepare accounting statements, it is important that candidates are encouraged to develop an ability to interpret and understand the information contained in those statements.

Errors four and five caused some candidates problems. In calculating the corrected net profit, many candidates failed to include the given figure of the original profit and the \$30, shown as an increase in the profit after correcting the first error. Several candidates also lost marks through careless errors such as adding the difference between the two columns to the net profit, even though the total of the minus column was greater than the total of the plus column.

- (b) Using the corrected net profit calculated in (a), and given data, candidates were required to prepare a Profit and Loss Appropriation Account of a partnership business. The account was acceptable in either horizontal or vertical format.

There were some good answers to this question and it was pleasing to find many candidates gaining full marks. A few candidates again lost marks through careless errors such as deducting interest drawings from the net profit and adding interest on capital to the net profit. A small number of candidates incorrectly included capital and drawings, or attempted to prepare a Balance Sheet extract or columnar current accounts.