

ACCOUNTING

Paper 9706/12
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	16	C
2	D	17	B
3	C	18	A
4	C	19	A
5	C	20	A
6	A	21	C
7	A	22	A
8	B	23	D
9	A	24	C
10	C	25	C
11	B	26	D
12	B	27	A
13	D	28	C
14	D	29	B
15	A	30	A

Key messages

- The items affecting the reconciliation of sales (or purchases) ledger control accounts with the total of the balances of the individual sales (or purchases) ledger need to be considered. Some only affect one of the two sets of data, whilst others affect both.
- Adjusting for goodwill in the case of a change in the partnership. The rule is: credit the **old** partners in the **old** profit sharing ratios, debit the **new** partners in the **new** profit sharing ratios.

General comments

More than 60 per cent candidates achieved a score of 15 or more. A significant number of questions appeared relatively straightforward; **7, 10, 14, 18, 19, 21, 22, 23, 24, 26,** and **29**, where more than 70 per cent of candidates identified the correct option. There were however some questions which candidates found challenging and these are discussed here.

Comments on specific questions

Question 2

The usual causes of depreciation of non-current assets are wear and tear, obsolescence, passage of time, changes in technology and using up in the case of, say a mine or quarry. Of these, only technology was mentioned in the question, thus the key was **D**.

Question 6

Candidates found this question challenging. At the first glance all the options seemed to be able to account for the \$2400 difference between the two sets of figures. However, **B** would have reduced the total of the balances of the sales ledger, thus increasing the difference. **C** and **D** only required adjusting once. The key was, therefore **A**, where the \$1200 needed to be doubled.

Question 13

Adjusting partners' capital accounts for goodwill often causes issues for candidates. However, setting out workings in rough as shown below, should quickly identify the correct answer, which was **D**.

	Capital L	Capital M	Capital P
	\$	\$	\$
Old profit sharing ratios - credit	24 000	24 000	Nil
New profit sharing ratios - debit	(16 000)	(16 000)	(16 000)
Difference	<u>8000</u> Cr	<u>8000</u> Cr	<u>16 000</u> Dr

Question 25

The difference in reported profit when using marginal rather than absorption profit is something which requires careful thought. In this case the quantity produced was less than the quantity sold. This meant that some of the opening inventory was included in the cost of sales. As this contained an amount of fixed overheads brought forward the cost of sales would be higher using absorption costing rather than marginal costing, so the profit would be lower as identified by the key **C**.

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<p>Paper 9706/22 Structured Questions</p>

Key messages

It is increasingly important for candidates to show workings for computational questions. This ensures that some credit may be earned even though the final answer may be incorrect. In written questions, candidates should make sure that they provide sufficient development to their answers. A few words answers will seldom suffice. Candidates must develop greater analytical skills and learn to extract information from scenarios to make their answers relevant.

General comments

There were some strong responses from the well-prepared candidates on both computational questions and those requiring written answers. Unfortunately, less well-prepared candidates struggled in particular with the discursive questions.

Many candidates demonstrated good evaluative skills. Unfortunately, presentation of the financial statements was not satisfactory.

We would like to emphasise that when required to 'advise' directors or management on a particular issue, candidates should endeavour to discuss both positive and negative aspects of their advice – this is often lacking.

Comments on specific questions

Question 1

- (a) The question required candidates to prepare the income statement for the year taking account of various adjustments. Whilst the majority of candidates were able to correctly make adjustment for the most routine issues very few candidates were able to correctly account for the adjustment to closing inventory as a result of the goods on sale or return. In the expenses section, the main errors related to calculation of the decrease in the provision for doubtful debts and calculation of the charge for depreciation.
- (b) In part (i), most candidates were able to get an own figure mark for inventory and also an own figure mark for the total current assets. Part (ii), the current liabilities proved more challenging for many candidates. Few candidates included the current liability part of the loan and even fewer were able to correctly calculate either trade payables or other payables.
- (c) This part of the question required candidates to state two benefits and two drawbacks of operating as a sole trader. This produced much better responses from almost all candidates. The most common drawback cited was 'lack of sufficient capital'. This was not allowed as it is most certainly not always the case.

- (d) The final part of the question required candidates to advise the trader whether he should form a limited company or form a partnership. Responses were not satisfactory in that many candidates did not make use of the data provided to calculate potential dividend costs and interest costs. Many candidates repeated answers from task (c) and were not rewarded.

Question 2

- (a) Candidates were required to state the journal entry to write off an irrecoverable debt. Candidates who did not identify which part of the entry was debit and which was credit were not rewarded marks. Many answers were in sentence format – that is not a journal entry.
- (b) Very few candidates were able to correctly calculate the amount of the provision. A number of answers included the opening balance of the provision of \$1100.
- (c) Despite the fact that the question clearly stated that dates were required, very few took any notice of the instruction and were not rewarded marks even for correct numerical answers.
- (d) Most candidates were able to identify prudence or matching as the two accounting concepts applied when making a provision for doubtful debts.
- (e) Only the very well-prepared candidates were able to answer this part of the question correctly. Some candidates ignored the instruction ‘*Support your answer with relevant calculations*’. A significant number of responses were purely descriptive and gained a maximum of two marks.

Question 3

- (a) The question required candidates to state three reasons why it might be difficult to compare financial ratios between businesses in the same industry. Many candidates gave three valid responses, frequently referring to the relative size of the businesses, window dressing and also non-monetary issues.
- (b) The second part of the question required candidates to calculate closing inventory, trade receivables and trade payables using ratios. Those candidates who demonstrated good numeracy skills performed well on this question.
- (i) Many candidates were able to correctly calculate the value of closing inventory. However, less well-prepared candidates chose to ignore the rate of inventory turnover and attempted to recreate a reading account and did not gain any marks.
- (ii) Many candidates correctly calculated the value of trade receivables.
- (iii) Again, many candidates correctly calculated the trade payables.
- (c) The question required candidates to prepare a summarised limited company income statement. There were few strong responses. Many weak responses demonstrated distinct lack of numeracy skills. Few candidates were able to go any further than the gross profit for the year.
- (d) Candidates were better able to cope with calculation of the proceeds of the rights issue. Most candidates correctly calculated the number of shares issued, though many then did not calculate the correct proceeds.

Question 4

- (a) Parts (i)–(iii) required candidates to calculate inventory valuations using a FIFO method of valuation. Candidates who were familiar with the operation of the method performed well.
- (b) Whilst several candidates were able to offer two good advantages of using a FIFO method of inventory valuation, several candidates did not appreciate that it is a method of valuation rather than a method of recording the physical movement of inventory. As such, a number of candidates referred to avoiding waste of perishable goods etc. which was clearly irrelevant.
- (c) The apportionment of budgeted overheads was very well answered by the majority of candidates.
- (d) Following on from the apportionment of budgeted overheads, most candidates continued to correctly calculate the overhead absorption rate, though some did not pay heed to the instruction that the rate had to be correct to two decimal places.
- (e) Responses were quite mixed in preparing a statement to show the total selling price. A number of candidates included four figures for overheads rather than selecting those appropriate to the particular department. Some candidate unnecessarily lost marks for poor presentation. Prepare a statement indicates that labels are required, not just figures.

Many candidates were able to correctly calculate the profit for the year if the expansion went ahead and continue the thread to calculate the profit per unit, though less well-prepared candidates appeared to be unfamiliar with the contribution to sales ratio.

- (f) The final task, requiring advise as to whether or not the offer should be accepted was generally well answered, with many candidates showing appropriate evaluative skills.

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<p>Paper 9706/32 Structured Questions</p>

General comments

Overall performance was acceptable. It is increasingly important for candidates to show workings to support answers for computational questions. This ensures that some credit may be earned even though the final answer may be incorrect. Candidates should read the questions carefully before writing their answers.

Comments on specific questions

Question 1

- (a) Although most candidates clearly understood what is meant by prime cost and work in progress very few were able to fully explain both terms.
- (b) The manufacturing account was prepared to a high standard by nearly all candidates with a significant number being awarded full marks. The most common error was the miscalculation of depreciation. Few candidates incorrectly deducted the indirect costs from the prime cost and lost marks.
- (c) Responses were variable with some strong answers but also some which demonstrated a lack of understanding. Despite the question asking for reference to accounting concepts and calculations some candidates did not provide these.

Question 2

- (a) A significant number of candidates did correctly calculate the profit and were awarded three marks. Some, however, completed partial calculations and submitted answers of \$1 080 000 or \$54 000.
- (b) Performance varied with many candidates producing correct statements and being awarded twelve or more marks. However, some candidates prepared poor statements with incorrect figures often not supported by workings. The trade and other receivables figure was usually calculated correctly as was the cost of sales. Errors often occurred with the subsequent derivation of the closing inventory and/or trade and other payables. Marks were often lost for the retained earnings figure and invariably the workings were not shown so candidates could not be given any credit for an incorrect final figure.
- (c) Many candidates calculated the ratio correctly but some incorrectly provided their answer as a monetary value.
- (d) This part was not well answered. Many stated that the ratios were 'higher' or 'lower' but did not develop their answer as to whether this was better or worse for the company and some stated that a higher inventory turnover measured in days was beneficial.

Question 3

- (a) Most candidates were able to identify a benefit of auditing but few were able to explain the benefit sufficiently to be awarded the second mark.
- (b) Most candidates correctly identified the required IAS for items 1 and 2 but relatively few could identify the required IAS for item 3. Explanations for items 1 and 2 were generally good with most

being able to explain the impairment loss and the non-adjusting event satisfactorily. However, explanations for item 3, with few exceptions, were not worthy of credit.

- (c) Few candidates calculated the revised retained earnings fully correctly but most made the majority of adjustments correctly. The most common errors were the incorrect treatment of the deposit and the goods sent to a customer on a sale or return basis.
- (d) This was not well answered and very few candidates included the cash and cash equivalents in the total assets figure.
- (e) Most candidates scored the available mark for providing the advice. Candidates generally attempted a justification but the explanations were lacking in substance and relatively few were awarded more than three of the five available marks.

Question 4

- (a) Although most candidates identified the introduction of cash few made reference to the capital.
- (b) There were relatively few correct explanations with some believing that the transactions were at the cessation of the joint venture.
- (c) There were some correct solutions with common errors being the omission of the sale of the fixtures and/or the inclusion of the drawings.
- (d) There were very few fully correct ledger accounts with a range of errors including reversal of the entries and inclusion of total sales.
- (e) The mark for advice was generally awarded but then responses tended to be generic rather than scenario based.
- (f) Most candidates were awarded two marks for the profit/not for profit difference and some did develop their answer and were rewarded accordingly.

Question 5

- (a) (i) Some candidates were able to correctly calculate the net cash flow for each year. Where the flows were not correct the error was usually as a result of miscalculating the cost of sales.
- (ii) Most candidates were able to correctly calculate the payback period. Full credit was given for a correct calculation based on the candidate's own figure where the cash flows were not correct. A limited number of candidates did not round up correctly.
- (iii) This was well answered with many fully correct answers. Marks were often lost for the incorrect treatment of depreciation and the failure to submit the answer to two decimal places as was clearly requested in the question paper.
- (b) This was generally well answered with most candidates were able to state two disadvantages and a few were able to state the required advantages.
- (c) This was very well answered with nearly all candidates able to calculate the net present value using either the correct figures or the candidate's own figures.
- (d) Responses were acceptable with nearly all candidates gaining the available marks for the decision and for commenting on the net present value. Few gained the marks for comments on the payback period and accounting rate of return.

Question 6

- (a) Most candidates gave acceptable responses and were awarded two marks.
- (b) Most candidates were awarded five marks but few were able to deal correctly with the semi-variable overheads and consequently the other three marks were lost. A limited number of candidates produced two budgets with one being based on 1 000 units and the other on 3 000 units.
- (c) Most candidates made a reasonable attempt at the reconciliation. The most common errors were the incorrect calculation of the semi-variable overheads variance and the fixed costs variance.
- (d) Responses were generally satisfactory with most providing appropriate suggestions.
- (e) Most candidates were able to score three of the available five marks as they provided advice along with two advantages. Only a limited number of candidates provided any disadvantages but those that did were rewarded accordingly.