

ACCOUNTING

Paper 9706/12
Multiple Choice

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

Key messages

Candidates should always try to identify irrelevant information in the question. Any options which contain it can then be disregarded.

Candidates should note the dates given in the question. These are important and may affect an answer.

General comments

Candidates found **3**, **11** and **26** relatively easy, with more than 70 per cent of candidates identifying the correct key. In contrast, there was a number of questions which candidates seemed to find difficult. These have been discussed here.

Comments on specific questions

Question 4

In this question candidates needed to consider the dates, specifically the length of time which the warehouse had been owned before the revaluation, which was five years. This left a further 20 years for it to be depreciated using the straight line method on a revaluation of \$120 000, meaning an annual charge of \$6000, being the key **D**.

Question 5

Candidates were required to calculate the correct totals of the sales ledger balances. The only items which should have been taken into account were 1 and 4. The irrecoverable debt would have reduced the total and the unrecorded sale increased it, giving the key **D**.

Question 9

The amount of net trade receivables at the end of the year was the total figure of \$84 600 less the adjusted provision for doubtful debts \$2555, giving the key **D**. The irrecoverable debt was meant to distract and should have been ignored.

Question 10

Most candidates used the loan to a friend as a liability when calculating the capital balance. It should have been treated as an asset to give the key **B**.

Question 17

Candidates were given data after the issue of shares had taken place. The share capital **before** the issue must have been \$900 000, therefore 300 000 shares were issued at \$1.50 each. This would have generated \$450 000 in cash, giving the key **C**.

Question 19

Looking at the financial statements of a business is essentially looking back in time. Thus, it is impossible to identify any future events. In this case statements 1 and 2 should, therefore have been ignored, leaving only statement 3 as valid, being the key **D**.

Question 23

In times of rising prices FIFO gives a higher value of closing inventory. Thus using AVCO will give a lower value and thus a lower profit. This would give the key **D**.

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

Key messages

It is 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.

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. Weaker candidates struggled in particular with the discursive questions.

It is important for candidates to understand 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.

Comments on specific questions

Question 1

- (a) The question required candidates to prepare the income statement for the year taking account of various adjustments. The majority of candidates were able to correctly make adjustment for the more routine issues but again, less well-prepared candidates were unable to correctly account for the adjustment to closing inventory. In the expenses section, most candidates correctly calculated the depreciation charges distribution costs and finance costs. Almost all candidates provided good, comprehensive workings.
- (b) The task produced very mixed responses. Many candidates were able to gain two marks by discussing the aspect of revenue reserves being distributable whilst capital reserves are not, but many did not add a second relevant difference.
- (c) This part was quite well answered. Some less well-prepared candidates concentrated too heavily on one or the other option with no valid comparison between the two.
- (d)(i) Candidates concentrated on the reduction of irrecoverable debts and the potential loss of credit customers to gain both marks.
 - (ii) This was not as well answered. When discussing the issue of the availability of discounts, many candidates did not differentiate between cash discounts and trade discounts.

Question 2

- (a) Candidates were required to calculate three ratios. In all three cases, many candidates were able to produce accurate calculations, though a great many lost the final mark in each case by either answering to one or two decimal places or by rounding their answer down. These responses should always be rounded up to the next whole day.

- (b) Most candidates did not answer this question well. Most responses lacked the required depth of discussion and many candidates did not link the implications on cash flow of paying creditors five days early and receiving revenue from customers six days late. A small minority of candidates calculated the current and acid test ratios that were not required.
- (c) Most candidates were able to identify three drawbacks for a business holding too much inventory.

Question 3

- (a) Preparation of the partners' capital accounts produced mixed responses. A common problem was calculation of the profit on revaluation of the assets. Some candidates did not bring down the closing balances on the account and therefore lost the final mark. A minority of candidates combined the non-current assets and the cash introduced by the incoming partner. This had to be two separate entries.
- (b) This part required preparation of the appropriation account and was not answered well. Whilst a minority of candidates were able to correctly calculate the loan interest and the salary applied to the new partner, very few candidates gained more than those two marks due to not recognising the mechanics of the split period.
- (c) The question required explaining two reasons why a partnership might keep separate current and capital accounts. This produced some reasonable responses but many lacked clarity. It was often difficult to ascertain which account candidates were referring to in their responses. Marks were frequently awarded for comments regarding the ease of calculation of interest on capital and drawings, but few candidates were able to offer more detailed explanations.

Question 4

- (a) The first task required candidates to explain two drawbacks of using a budgeted overhead absorption rate. Other than referring to the fact that figures were estimated and could therefore be inaccurate, few candidates developed their answer to address the effects of over and under absorption.
- (b)(i) Most candidates were able to correctly allocate the maintenance department costs to the two production departments.
- (ii) The majority of candidates were also able to correctly calculate the overhead absorption rate. It should be noted that candidates should be aware that rates must always be correctly rounded to two decimal places when required.
- (c) Calculation of the total actual wages was well answered by most candidates.
- (d) Calculation of the over- or under-absorption of production overheads for each department caused problems for less well-prepared candidates though there were also some strong answers. Most candidates omitted the apportioned maintenance cost in their calculation.
- (e) Using marginal costing, candidates were required to advise whether or not an order from a customer should be accepted. Most candidates tended to concentrate solely on either financial or non-financial factors which limited their opportunity to gain full marks. However, there were signs of better reasoning in many of the answers compared to previous sittings.
- (f) The final task, requiring candidates to state four factors that a business should consider before changing its supplier produced some good responses with many candidates gaining full marks.

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

Key messages

Candidates should focus on all sections of the syllabus and should read the question requirements carefully before answering. Some candidates omitted calculations and did not get any marks where there was an incorrect final value only.

General comments

Overall performance of candidates was reasonable. **Question 5** was the best answered question and **Question 3** was the least well answered.

Comments on specific questions

Question 1

- (a) Most candidates correctly calculated the net book value of the freehold property but relatively few were able to calculate the cost and accumulated depreciation of the plant and machinery and motor vehicles.
- (b) Many candidates did not answer this question well. Very few candidates made any adjustment to the retained earnings and some adjusted the trade receivables incorrectly.
- (c) Some candidates did not answer the question by providing descriptions of the different methods of depreciation. Those that did address the requirements of the question generally gave two or three appropriate factors.
- (d) Many candidates gave the required advice and three relevant comments. Few, however, supported their answer with ratios. Those who did calculate the current gearing ratio and the gearing ratio after raising the finance were able to score full marks for the question.

Question 2

- (a) (i) Most candidates identified that the profit on consignment would be overstated as the expenses were understated. However, the amount of the profit overstatement was not calculated correctly.
(ii) Very few candidates calculated the amount by which the profit for the year was understated.
- (b) The consignment account was well prepared with most candidates being awarded at least six of the ten available marks. A limited number produced a fully correct account and were awarded ten marks. The most common errors were the incorrect calculation of the closing balance and incorrect labelling of the income statement and/or the closing balance.
- (c) Performance was mixed with some correct calculations but also many omitting the balance of \$32 500 and/or the balance from the consignment account.
- (d) Most candidates identified the probable saving on transport costs and the wider market but few provided any other valid points.
- (e) This was well answered with many candidates giving an appropriate explanation of the difference between an agent in a consignment and a party in a joint venture.

Question 3

- (a) Relatively few candidates were able to calculate the correct goodwill figure due to errors being made in the comparison of the net assets to the fair value of each business.
- (b) This was not well answered with very few candidates entering an adjusted bank figure or updated capital account balances for the partners. Most candidates were awarded the three available marks for non-current assets, inventory and trade receivables.
- (c) There were a limited number of fully correct current accounts. Many weak responses included incorrect items such as capital account balances and goodwill.
- (d) Many candidates were awarded the two available marks for using their own figures from **part (b)** for the capital employed and then giving their answer to two decimal places as was required.
- (e) A significant number of candidates wrote about the generic advantages and disadvantages of a partnership which was not required. Some candidates stated whether or not there was a financial advantage to the partners but only a few gave an appropriate evaluation by considering the change in profits, drawings and return on capital employed.

Question 4

- (a) Only a limited number of candidates could answer this question.
- (b) The cash flow statement was prepared to a reasonable standard with well prepared candidates obtaining high marks. The most common errors were incorrect labelling throughout the statement and the inclusion of items in the incorrect section of the statement. Some candidates were unable to derive the opening and closing cash and cash equivalents figures from the given information.
- (c) Many candidates were awarded the available mark.
- (d) This was answered to a reasonable standard with most candidates giving two or three valid points. Some candidates did provide five appropriate reasons and therefore were awarded full marks. A limited number wrote in general terms about cash budgets which was not required and did not receive any credit.

Question 5

- (a) Many candidates answered this question well. The most common error was the incorrect calculation of direct labour for product Y.
- (b) Many candidates gave an acceptable response and were awarded the mark. However, there were some responses which indicated a lack of knowledge.
- (c) This was well answered with many candidates being awarded full marks. Nearly all were able to calculate the overheads for each product using activity based costing.
- (d)(i) Many candidates made the calculations correctly and scored full marks. Where errors had been made earlier in the question credit was given to candidates using their own figures correctly.
 - (ii) Those candidates who had made the calculations correctly in **(d) (i)** generally answered this question well too.
- (e) Responses were satisfactory with nearly all being awarded the available mark for the advice. Candidates were more aware of the reasons against changing the method than those for not changing.

Question 6

- (a) (i)** This was well answered although relatively few scored full marks as a result of not moving the sales figures back by one month.
- (ii)** Many candidates did not move the production units to the correct month. Some candidates did not adjust for the 10 per cent increase in the cost of direct materials for August and September.
- (b)** Many candidates stated the advantages and disadvantages of preparing budgets rather than what the question asked.
- (c)** This was answered to a reasonable standard with many candidates stating one appropriate reason with a limited number providing two reasons worthy of credit.
- (d)** Few candidates prepared a flexed budgeted profit statement and showed the variances and consequently very few were awarded full marks. Most candidates scored some marks for either the statement or the correct calculation of the variances.