

# ACCOUNTING

**Paper 0452/01**  
**Multiple Choice**

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

## **General comments**

There were 4672 candidates (compared to 6597 in November 2008). The mean mark was 24.8 out of 40 (compared to 23.2 in November 2008). The standard deviation was 7.1 (compared to 7.2 in November 2008).

Judged against the accessibility of 60–90%, five of the items were regarded as slightly difficult, four items proved to be more difficult than anticipated and a further six items proved to be much more difficult than expected.

All the items were within the Core Syllabus.

### **Comments on specific items**

#### **Item 5**

The key was correctly identified by 44%. It was disappointing that 36% regarded the wages of the proprietor as a business expense, rather than as drawings.

#### **Item 8**

51% correctly selected the key. The number of candidates selecting the other options indicates a degree of guesswork. It was expected that the majority of candidates would correctly adjust the figure of \$250 by adding the opening stock and deducting the closing stock.

#### **Item 10**

It was extremely disappointing that only 14% correctly identified the key. 59% failed to appreciate that a debit note issued by a customer is simply a request for a reduction in an invoice and no entries are made in the accounting records. 40% made correct calculations excluding the debit note, but 26% incorrectly included the cheque issued on 1 April.

#### **Item 11**

The key was selected by 42%, but the same number selected option C. This should have been a straightforward item. It was expected that candidates would know that the journal is used to record the purchase of fixed assets on credit.

#### **Item 13**

39% correctly identified the key, B. It was anticipated that the majority of candidates would be able to select the correct option. It was disappointing that 55% selected option A, which was the actual balance of the petty cash book, not what would be received to restore the imprest.

#### **Item 14**

55% correctly selected the key. The number of candidates selecting the other options indicates a degree of guesswork. It was expected that the vast majority of candidates would know that the total of the sales returns journal is posted to the debit side of the sales returns account.

#### **Item 15**

The key was selected by 52%, much less than expected. Candidates should have been aware that a cheque received for rent would be debited to the bank account and credited to the rent receivable account.

#### **Items 16 and 17**

These were both on the topic of trial balances.

**Item 16** was a negative item, but the word 'not' was emboldened. Only 42% correctly identified the key as D. The trial balance may indicate that a double entry has been made for each transaction, but it does not prove that those entries have been made in the correct accounts.

**Item 17** also had a lower than expected outcome with 51% selecting the key. 29% selected option B, failing to appreciate that this error was an error of original entry. If an incorrect amount is entered in the sales journal that figure will be automatically entered in the ledger, so the balancing of the trial balance will not be affected.

#### **Item 20**

59% appreciated the fact that both the dishonoured cheque and the standing order would affect the cash book balance in the same way, but 36% deducted these items from the bank statement balance, rather than adding them.

### Item 22

This proved to be much more difficult than anticipated. The statistics indicate a large degree of guesswork. The construction of a rent receivable account would have revealed the amount actually received to be \$9500. The opening balance was a debit, the closing balance was a debit (to be carried down to the credit) and the transfer to profit and loss of \$7500 rent for the year was a debit.

### Items 25 and 26

These were both on the topic of depreciation.

In **Item 25**, 58% correctly identified the depreciation for the year, but 32% did not add this to the existing provision for depreciation to arrive at the total of the provision on 31 December 2008.

In **Item 26** it was disappointing to find that 33% believed that the percentage rate of depreciation reduced annually using the reducing balance method. The percentage rate stays the same, but is calculated on a reducing figure.

### Items 32 and 33

These were both on the topic of partnership accounts. In both items the statistics indicate a substantial degree of guesswork.

In **Item 32** it was expected the candidates would know that in an appropriation account that interest on drawings is added to the net profit, interest on capital and partners' salaries are appropriations and drawings are not included.

In **Item 33**, 57% did appreciate that items to which partners become entitled or which they are charged during the year are entered in their current accounts and not their capital accounts. Of these, 35% knew the current account would be debited.



# ACCOUNTING

Paper 0452/02

Paper 2

## General comments

As in previous examinations, candidates' performances varied widely on this question paper. Well prepared candidates earned many of the available marks but many other candidates found the range of topics examined challenging and lost marks on particular areas of the syllabus. There was evidence that many had particular difficulty with **Questions 2** and **4** although the questions were testing fundamental principles of accounting and similar questions have been asked in previous sessions.

Most of the short questions in **Question 1** were well answered but candidates found it difficult to give precise and accurate answers and many had difficulty in writing up the rent account in the ledger. Candidates also found writing up customer accounts in **Question 2** difficult and the journal entries in part (c) were not well answered: many candidates gave answers to part (d) without showing their workings and lost marks. The calculation of ratios in **Question 3** was well answered but weaker candidates had clearly guessed the answers to part (d) and did not earn many marks. Candidates found **Question 4** on depreciation very difficult and although some gave good answers a large number were unable to earn many marks at all. Candidates also found part (a) of **Question 5** difficult, but gave good answers to the rest of the question.

Most candidates completed all of the questions and there did not seem to be evidence of time pressure although there were a number of candidates who did not attempt some of the questions at all.

## 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 correctly identified two final accounts from those available: these included the trading account, the profit and loss account, the profit and loss appropriation account and the balance sheet. Some candidates gave the manufacturing account and the income and expenditure account which were also accepted.
- (b) Most candidates were able correctly to identify the first given item as income and the other two as an expense:

		Income	Expense
(i)	Discount received	√	
(ii)	Carriage outwards		√
(iii)	Bank charges		√

- (c) Examples of items for which the cash book may need to be adjusted would include standing orders, direct debits and credit transfers, bank interest and charges, or a dishonoured cheque. Many candidates gave unpresented cheques or uncleared deposits, which are not correct.
- (d) The correct journal entry is as follows. Some candidates confused Petrus and Quintus, showed entries to the provision for doubtful debts account in error, and incorrectly reversed the Dr and Cr entries.

	Dr	Cr
Bad debts	250	
Petrus (or Debtor)		250

- (e) Most candidates correctly stated that a supplier's account would be found in the purchases (or creditors) ledger, and the repairs account in the nominal (or general) ledger. Some candidates referred to the purchases or the general journal which was not correct.
- (f) This part of the question caused most difficulty and was not well answered. Candidates gave answers which were reversed, incorrectly described the bank entry as rent, had difficulty in deciding what balance should be carried and brought down, if any, showed the balance on both debit and credit sides of the account, and many did not realise that the profit and loss account entry should be on the credit side and represented one month's rent. Some candidates were clearly confused by the term 'quarterly' to describe the period of rental payment and incorrectly showed one quarter of the amount paid as the monthly rental.

The preparation of ledger accounts with accruals and prepayments is a fundamental topic and candidates should be prepared to answer questions of this nature.

The correct ledger account is as follows:

Saleem – rent						
1 October	Bank	960		31 October	Profit and loss account	320
		<u>960</u>			Balance c/down	<u>640</u>
						<u>960</u>
1 November	Balance b/down	640				

- (g)(i) A partnership should record how profits and losses are to be shared in a Partnership agreement but many candidates acceptably gave the Profit and Loss Appropriation Account as showing the same information.
- (ii) Other financial matters which might be included would be the capital to be contributed, drawings, interest on capital or on drawings, or partners' salaries.

## Question 2

This question tested candidates' understanding of the sales journal, nominal and personal ledger accounts and the use of the journal to correct errors.

Part (a) required candidates to state which accounting document would show the amount of trade discount and cash discount and the correct answer was the invoice for trade discount, and the invoice or the statement of account for cash discount. Many candidates thought their answer should be the cash book, another book of account or an account in the ledger, but the question asked for a document.

As in part (f) in **Question 1** above, in part (b) many candidates did not correctly write up the ledger accounts, showing sales as debits and entries to customers' ledger accounts as credits, and often showed transfers to the trading account although these were not required. Some candidates made identical entries on both sides of the ledger account but these gained no marks at all. Most candidates did, however, earn some of the available marks.

The correct ledger accounts are:

Sales		
		2009
		16 October Total sales 550
Artelis		
2009		
12 October Sales	250	
Brook		
2009		
14 October Sales	300	

In part (c), many candidates introduced an unnecessary suspense account in their journal entries, and when asked in part (d) to show the balances on the ledger accounts after posting the journal entries, many candidates lost marks by not showing any workings so the Examiner could not see where their answer came from.

The correct journal entries are set out below:

	Dr	Cr
Sales	20	
Artelis		20

Chadri	55	
Sales		55

The correct balance on each of the accounts in the ledger after correcting the errors is:

	Dr \$	Cr \$
Sales (550 + 55 – 20)		585
Artelis (250 – 20)	230	
Brook	300	
Chadri	55	

### Question 3

This question required candidates to calculate the current ratio, quick ratio and working capital of a business from a given balance sheet, and then to show the effect on working capital of a number of proposed changes to the business. Part (a) (the calculations) was well answered and many candidates obtained all, or very nearly all, the available marks.

The correct calculations were:

- (i) Current ratio = current assets / current liabilities  
= 17 700 / 9 400  
= 1.88 : 1
- (ii) Quick ratio = (current assets less stock) / current liabilities  
= 15 300 (17 700 – 2 400) / 9 400  
= 1.63 : 1

Note that a ratio must be shown as xx : 1, and **not** as 1 : xx, and that the question specifically asked for the calculations to be made to **two** decimal places. Answers of 1.9 and 1.6 were not accepted.

- (iii) Working capital = current assets less current liabilities  
= 17 700 – 9 400  
= 8 300

Part (b) was not well answered but the format of the question allowed candidates to guess their answers by selecting items from the table and there was evidence that a number of candidates were doing this – but not earning many of the available marks.

Those candidates who gained the available marks had thought about the effect of each proposed change on the components of working capital and decided whether this led to an increase, a decrease or had no effect.



Increasing capital would increase cash or bank balances and would increase current assets and therefore working capital; reducing debtors has no effect as debtors are converted into cash or bank balances, repaying a bank loan will reduce cash or bank balances and reduce working capital and reducing drawings increases cash or bank balances and increases working capital.

The correct table is therefore:

	Working capital		
	Increase	Decrease	No effect
Increase capital	√		
Reduce debtors			√
Repay bank loan		√	
Reduce drawings	√		

#### Question 4

This question on fixed assets and depreciation was found to be very difficult for many candidates, and very few completely correct answers were given.

Part (a) required candidates to show in a table whether a certain asset was a tangible fixed asset, an intangible fixed asset or a current asset and was well answered.

The correct table is:

	Tangible fixed assets	Intangible fixed assets	Current assets
Goodwill		√	
Motor van	√		
Warehouse	√		
Stock			√

Part (b) required the candidate to calculate the depreciation to be charged in a profit and loss account for each of two years, from information given about the asset and the method of depreciation chosen. As the straight line method had been chosen, the calculation required the scrap value to be deducted from the original cost and the balance to be spread equally over the three year useful life of the asset.

A number of candidates correctly calculated the depreciation, but some gave their answer for only one year, expecting the Examiner to imply the same figure for the second year; others calculated the depreciation, but then subtracted this from the original cost (or the cost less the scrap value) and gave the net book value as their answer. Even if their depreciation calculation had been correct, this error lost some marks. Some spread their depreciation over only two years, apparently confused by the question. A significant number of candidates did not appear to understand the principle of depreciation at all and earned no marks.

The calculation is:

$$\begin{aligned} \text{Depreciation} &= (\text{Original cost} - \text{scrap value}) / 3 \text{ (years)} \\ &= (2100 - 300) / 3 \\ &= 600 \end{aligned}$$

The depreciation charged in each of the two years is \$600.

For part (c), candidates were asked to prepare the provision for depreciation account in the ledger for the two years, balancing the account each year and showing the transfer to profit and loss account.

A minority of candidates correctly prepared the account, showing only the provision for depreciation charged for each year, the transfer to profit and loss account and the balance brought down to the following year increasing. Many others became confused and incorrectly included the original cost of the asset in the account, with or without an adjustment for the scrap value; others used different figures to those they had calculated in part (b), for no apparent reason, and again a significant number of candidates were unable to make any effective attempt at this part of the question.

It was particularly disappointing to find candidates who were confused between the provision for depreciation account and the provision for doubtful debts account, including incorrect and irrelevant comments about bad debts.

The correct account is:

Provision for depreciation			
2009			
Balance c/down	600		2009
	<u>600</u>		Profit & Loss account
			600
			<u>600</u>
			Balance b/down
			600
2010			2010
Balance c/down	1 200		Profit & Loss account
	<u>1 200</u>		600
			<u>600</u>
			<u>1 200</u>
			Balance b/down
			1 200

Part (d) required candidates to complete a pro forma extract from a balance sheet, showing the fixed asset entries. Those candidates who had correctly attempted parts (b) and (c) earned the available marks, although a surprising number of candidates did not realise a narrative of 'Fixed assets', 'Plant and equipment', or 'Office equipment' was necessary, as this was not shown in the pro forma.

Other candidates often earned some marks by realising that the net book value was the difference between the cost and the provision for depreciation, but others offered a variety of numbers from earlier parts of the question but did not show they understood the principles.

The correct extract is:

Cleo			
Balance Sheet at 30 September 2010 (extract)			
	Cost	Provision for Depreciation	Net book value
	\$	\$	\$
Fixed assets			
Plant and equipment	2 100	1 200	900
<i>(or Office equipment)</i>			

The last part of this question, part (e), asked candidates to explain what the balance on the provision for depreciation accounts represented.

The correct answer is the accumulated depreciation to date, representing the amount of the original cost which has been used up to date over the life of the machine. Answers stating that the balance represented the net book value of the machine, or making any comments relating to profit or loss on disposal were incorrect and earned no marks.



### Question 5

For 2009, the syllabus had been extended to include the accounts of service businesses and a question on these may have been expected. This question related to an insurance business earning fees and commissions, and candidates were asked to calculate the fees earned in a year, to prepare the profit and loss account, to show the owner's capital account for the year, and to comment on how the owner might take some action to reduce the deficit on his capital account.

In part (a), candidates were asked to calculate the fees earned from information about opening and closing debtors and the amount shown in the bank column of the cash book as received from clients.

This required a straightforward adjustment of the amount received for the opening and closing debtors, and could have been shown as a sum, or as an extract from the fees received account, or the fees control account. In the event, some candidates calculated the correct figure, but the majority became confused, either adding both opening and closing debtors, or subtracting both, or adding one and subtracting the other, but not necessarily in the correct way. Some incorrectly included the commissions received, and some incorrectly deducted the drawings. Most eventually arrived at an answer, but few were correct. This was disappointing as the principle is not difficult. The correct calculation is:

Fees earned	= fees received	12 000
	less: opening debtors	<u>2 600</u>
		9 400
	add: closing debtors	<u>4 100</u>
	=	<u>13 500</u>

Part (b) required the candidate to prepare the profit and loss account from information given and from the answer in part (a). This part was well answered, with most candidates gaining most of the available marks. Where candidates had arrived at an answer in part (a), and used this answer in part (b), they received credit for the correct use. Some candidates included commissions twice, once from part (a) and again in this part, and some incorrectly included drawings as an expense, but most completed the account and found a profit or loss. The correct profit and loss account is:

Khalid  
Profit and Loss Account for the year ended 31 October 2009

	\$	\$
Fees receivable		13 500
Commissions received		<u>32 000</u>
		45 500
Expenses		
Rent	9 600	
Staff wages	8 800	
Office expenses	6 400	
Motor expenses	<u>3 600</u>	
		<u>28 400</u>
Net profit		<u>17 100</u>

Part (c) requested candidates to prepare Khalid's capital account for the year. The opening balance was given in the question, and entries needed to be made for the net profit and the drawings. Many candidates correctly answered this part, using their own answer to part (c), and earned the available marks, although some omitted either the net profit or the drawings, and some thought the balance brought down was a bank balance. The correct account is:

Khalid – capital account

Drawings	25 000	Balance b/down	3 000
		Net profit	17 100
		Balance c/down	<u>4 900</u>
	<u>25 000</u>		<u>25 000</u>
Balance b/down	4 900		

In part **(d)**, candidates were asked to suggest two ways in which Khalid might reduce or eliminate the deficit on his capital account. Most candidates correctly identified two of the available options, which are to contribute additional capital (but not by taking a bank loan), to obtain capital by taking a partner, to reduce drawings, or to increase net profit by increasing fees or commissions, or by reducing expenses.

# ACCOUNTING

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**Paper 0452/03**

**Paper 3**

## General comments

The purpose of this structured examination paper was to distinguish between candidates obtaining grades A to C. Only those candidates who had studied the Extended Curriculum and who were expected to achieve at least a grade C should have been entered for this paper.

All questions were compulsory and were set mainly on the Extended Curriculum. The paper was designed so that some of the marks should have been relatively easy to achieve, but other marks could only be achieved by demonstrating a greater degree of knowledge and understanding. A number of candidates would have benefited from further study before attempting an examination at this level. A thorough knowledge of the subject is necessary to achieve a pass grade. Candidates are advised to work through previous examination papers and relevant exercises in textbooks when preparing for the examination.

Candidates are reminded of the importance of reading through each question very carefully before attempting an answer. Marks may be lost if instructions are not followed. For example, marks were lost when an instruction to balance a cash book or ledger accounts was ignored. Similarly, failing to give a ratio correct to two decimal places or to round up an answer to the next whole day resulted in the loss of marks.

It is also important that calculations are shown where appropriate. A number of candidates lost marks by providing an incorrect figure without supporting calculations. If calculations had been provided those candidates may have been awarded some of the available marks.

Where a question specifies a number of items required, for example 'Explain two ways...', 'Suggest two reasons...', 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 one(s).

It is recommended that the following comments are read in conjunction with the question paper and the published mark scheme.

## Comments on specific questions

### **Question 1**

Candidates were required to prepare a three column cash book and the ledger account of a debtor. The remainder of the question was on the topic of bad debts and provisions for doubtful debts.

- (a) Using a list of transactions, candidates had to write up a three column cash book. This should have been a very straightforward question and it was expected that all candidates would gain the majority of the marks. It was extremely disappointing that a number of candidates appear to have found this question difficult.

Common errors included:

- Entering the opening balance of the debtor and creditor
- Using incorrect dates
- Using inaccurate descriptions
- Making incorrect entries for the contra item

- (b) Candidates were required to write up the ledger account of a debtor. A three column running balance account or a 'T' account was equally acceptable. Many candidates were able to earn most of the available marks.

It was not unusual to find the opening balance incorrectly described as 'sales'. A number of candidates incorrectly wrote off the balance of the account as a bad debt after entering the dishonoured cheque.

- (c) Two ways to reduce the risk of bad debts were required. Many candidates were able to gain one or two marks. Other candidates suggested offering cash discount and charging interest on overdue accounts, but these do not actually reduce the risk of bad debts. It was disappointing that a number of candidates believed that creating a provision for doubtful debts would actually reduce the risk of bad debts occurring.
- (d) Candidates were required to write up a provision for doubtful debts account. A three column running balance account or a 'T' account was equally acceptable. There were some wholly correct answers, but also some very confused attempts. Many candidates failed to appreciate that the amount transferred to the profit or loss should be the decrease in the provision, not the total of the new provision. It was disappointing to find a number of candidates including the amount owed by debtors in the provision account.
- (e) An explanation of how the principle of prudence is applied by maintaining a provision for doubtful debts was required. It was pleasing to find some wholly correct responses. Most candidates managed to explain that this ensured that the profit was not overstated. A number of candidates failed to explain that it also ensures that the figure of debtors in the balance sheet is not overstated. Some candidates appeared to be unsure about the effect and stated that the profit would be 'either under or overstated' which was not acceptable.

## Question 2

This question involved the preparation of a balance sheet of a sole trader, the calculation of return on capital employed, and two theory questions.

- (a) Candidates were given a list of assets and liabilities of a sole trader at the start of a year, together with details of how these items had changed by the end of the year. A closing balance sheet was required. The majority of candidate prepared a vertical balance sheet, but horizontal balance sheets were also acceptable.

Most candidates successfully recorded the fixed assets, current assets and current liabilities. Common errors included entering the bank overdraft as a current asset, not showing the provision for doubtful debts as a deduction from the debtors and miscalculating the net book value of the fixed assets. The working capital was sometimes not shown or not correctly labelled.

The capital section of the balance sheet proved difficult for the majority of candidates. Very few candidates made use of the information given in the question to calculate the opening capital; instead a figure was inserted to make the balance sheet balance. It was disappointing that a number of candidates failed to make a distinction between the sections of a vertical balance sheet; adjustments for net profit and drawings were sometimes made on the net assets figure.

- (b) A calculation of the return on capital employed was required. It was pleasing to find many wholly correct answers. A few candidates lost marks as they failed to show the answer correct to two decimal places. Other candidates incorrectly used the opening capital rather than the closing capital employed as instructed.
- (c) Candidates were required to explain why a bank manager and a creditor would be interested in the accounts of a trader. It was pleasing to find a large number of acceptable responses. Most responses related to the ability of the trader to repay loan/overdraft or to pay for the goods supplied on credit. A number of answers were regarded as too vague. For example, stating 'To see if the bank can give the trader a loan' was not regarded as acceptable.
- (d) Two conditions which must be present for information to be regarded as reliable were required. Those who gained marks usually offered the statements that the information must be free from errors and free from bias. Some candidates attempted to explain accounting principles such as prudence. This would appear to be a topic which is not familiar to a number of candidates.

### Question 3

Candidates were required to prepare a purchases ledger control account, to calculate the payment period for creditors and to answer a theory question about delaying paying creditors. Finally, candidates were required to explain the entries in an expense account.

- (a) Using information provided, candidates were required to select the relevant items and prepare a purchases ledger control account. A three column running balance account or a 'T' account was equally acceptable. It was pleasing to find many candidates earning high marks. A few candidates appeared to be unsure how to enter the transfer to a sales ledger account. Some included extraneous items such as cheques received from customers, returns from customers and even the total purchases for the year. Entries were not always dated correctly.
- (b) The payment period for creditors had to be calculated. Many candidates were able to apply the correct formula, though a few multiplied by 14 or by 30 instead of by 365. A number of candidates failed to follow the instruction to round up the answer to the next whole day.
- (c) Candidates were required to state two possible disadvantages to a trader of paying creditors after the due date. It was very pleasing to find the majority of candidates were able to earn full marks on this question. There were a few candidates whose answers were too imprecise. For example, saying the trader would lose trade discount and cash discount was not accepted (the trade discount – if any – would have already been deducted when the sale took place).
- (d) Candidates were provided with a completed business rates account and asked to explain some of the entries in that account. Generally the answers were extremely disappointing, indicating that a large number of candidates cannot understand the meaning of entries in ledger accounts. In addition to actually making entries in ledger accounts using double entry principles, candidates are also expected to be able to understand what those entries actually mean. Some explanations were partially correct, but were not regarded as adequate. For example, 'This is the amount paid' was not regarded as an adequate explanation for the \$1490 paid by cheque for business rates. Similarly, 'This is the amount which went to profit and loss' was regarded as being far too vague.
- (e) Firstly, the significance of the closing balance on the business rates account had to be explained. Many candidates correctly identified this as an amount prepaid. Again, some explanations were not regarded as acceptable: an answer 'This is the balance of the account' was not adequate.

Secondly, candidates had to state the section of the balance sheet in which this figure would appear. There were many correct answers. It was disappointing that a few candidates, having identified the amount as a prepayment, stated that it was a current liability. It was also disappointing to find a number of candidates referring to the debit side of a balance sheet.

### Question 4

This question proved to be the most difficult on the paper. Despite the fact that similar questions have appeared on previous examination papers, many candidates appeared not to be familiar with the adjustments necessary on the introduction of a new partner. Those candidates who had revised this topic often earned good marks.

- (a) (i) Candidates were required to prepare a goodwill accounts in the books of a partnership. A three column running balance account or a 'T' account was equally acceptable. Some candidates did correctly calculate the correct amounts for each partner, but some reversed the entries. Some attempted to prepare a columnar goodwill account. The use of columns in a ledger account indicates that two or more accounts are being shown side by side: there is only one goodwill account, so it is not appropriate to attempt columnar format. A common error was the failure to indicate where the double entries would be made. Many candidates simply listed the names of the partners, but failed to indicate that the double entry would be made in their capital accounts.
- (ii) The capital accounts of the partners had to be prepared. Either 'T' accounts (columnar or individual) or three column running balance accounts were acceptable. It was pleasing to find a number of candidates obtaining very reasonable marks for this section.

Common errors included:

Using inaccurate descriptions such as 'bank' or 'capital' for 'balance'

Entering the current account balances in the capital accounts  
Failing to bring down balances on 'T' accounts

- (b) Candidates were required to explain why the original partners valued goodwill prior to the admission of the new partner. It was pleasing that many candidates recognised the fact that the original partners should be compensated for the goodwill they had built up. It was disappointing that many candidates simply attempted a definition of goodwill.
- (c) The capital section of the partnership balance sheet after the admission of the new partner had to be prepared. There were very few wholly correct answers. Many candidates simply listed the capital account balances and omitted the current account balances. Very few candidates showed the total of the capital accounts, the total of the current accounts and the overall total. It was disappointing that a large number of candidates failed to use the balances of the capital accounts they prepared in (a)(ii) and used the original figures of \$60 000 for Terry and \$40 000 for Candy.

### Question 5

This question required the preparation of departmental trading and profit and loss accounts, the calculation of the gross profit to sales and the rate of turnover, and two theory questions on these ratios.

- (a) Using the given information, candidates were required to prepare departmental trading and profit and loss accounts for two departments of a business. It was extremely pleasing to find the vast majority of candidates earning very high marks on this question. A few failed to label the cost of sales, or labelled the cost of sales as gross profit. The expenses were usually apportioned correctly between the departments, though a few candidates incorrectly included the cost of the fittings. It was disappointing that a small number of candidates lost marks by failing to follow the instruction to prepare columnar trading and profit and loss accounts and wrote out separate accounts for each department.
- (b) Using their answer to (a), candidates were required to calculate the gross profit as a percentage of sales and the rate of stock turnover. Once again, it was pleasing to find a large number of correct answers. Marks were lost by candidates not following the instruction to show the answers correct to two decimal places. Other candidates lost marks by presenting an incorrect answer without supporting calculations (which may have allowed some of the available marks to be awarded).
- (c) Two reasons for the difference in the gross profit percentage between the departments were required. It was disappointing that only a small number of candidates earned full marks. Incorrect responses referred to the quantity of sales, the quantity of purchases, the quantity of stock, the difference in the floor space, and even the difference in the expenses.
- (d) Candidates were required to suggest two ways in which the rate of stock turnover could be improved. Many candidates correctly suggested increasing the sales activity, but failed to mention the fact that a reduction in the stock level could also improve this ratio.