

ACCOUNTING

Paper 0452/11

Paper 11

Key Messages

Questions can be set on any section of the syllabus and a good knowledge of all sections of the syllabus is necessary to achieve a good grade in the examination. Many candidates demonstrated a thorough knowledge of the subject and their ability to apply that knowledge to the various questions.

Most candidates did provide supporting calculations where appropriate. This ensured that they were able to score some of the available marks, even though the final answer was incorrect.

It is important that financial statements and accounts are presented using an acceptable format. Candidates should avoid use of inappropriate abbreviations such as “b/d” or “bbd” for “balance”, “IC” for “interest on capital” and “P Ret” for “purchases returns”.

Candidates are expected to use International Accounting Terminology.

It is important to read through a question carefully before attempting an answer.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere. It is important that the candidate indicates to Examiners that this has been done. A note “continued on page...” or “please see page...” would ensure that this additional work is not overlooked.

General Comments

All the questions on the paper were compulsory and covered various topics on the syllabus.

Question 1 consisted of ten multiple choice items covering topics across the whole of the syllabus.

In **Question 2** candidates were given some short questions requiring knowledge of double entry, journal entries, accounting principles and trial balances.

Question 3 involved the preparation of an expense account, naming source documents, and required an understanding of books of prime entry.

Question 4 involved correction of errors which required candidates to prepare journal entries and a suspense account.

In **Question 5** control accounts had to be written up and a table completed to show the sources of information. The question also included a provision for doubtful debts account and a related theory question.

The main topic of **Question 6** was partnership accounts, including appropriation account and current accounts. Candidates were required to calculate the profit for the year using opening and closing capitals. The question also included the calculation of two ratios together with related theory questions.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

There were some excellent responses to items (a), (d), (f), (g), (i), and (j).

In item (b) it was expected that candidates would appreciate that when goods are undercharged the seller will issue either an additional invoice or a debit note. As an invoice was not given as one of the options the answer was option C – a debit note.

The correct key to item (c) was Option D. Udoka was making payment so his bank account would be credited, and, because he paid on time, he received cash discount.

Question 2

- (a) The majority of candidates correctly stated the accounting equation of capital = assets – liabilities. It was not regarded as adequate to simply show the initial letters of the words.
- (b) A list of transactions was provided and candidates were asked to state the double entry which would be made to record each transaction. There were many wholly correct responses.
- (c) Candidates were asked to explain why there could be a credit balance on a bank account but not on a cash account. Many candidates were able to explain why a bank account can have a credit balance but did not mention a cash account. Others correctly explained that it is impossible to spend more cash than is actually available. A few candidates incorrectly believed the reason was because of cheques not yet presented and amounts not yet credited.
- (d) A journal entry had to be prepared to record a contra entry from the sales ledger to the purchases ledger. Candidates should have credited Rupa's account in the purchases ledger with \$37 and debited his account in the sales ledger with the same amount. There were only a few wholly correct responses. Many candidates correctly used the figure of \$37 but made entries in the sales and purchases accounts, or the sales ledger and the purchases ledger without naming the particular accounts in those ledgers.
- (e) Candidates had to explain why the contra entry was made. A large number of candidates simply described a contra entry. Making a contra entry reduces the number of entries which are required as the debt can be settled by using one cheque only. Administration costs are also reduced.
- (f) Two accounting principles had to be identified. There were a large number of correct responses.
- (g) Candidates were required to state on which side of a trial balance four items would appear. A thorough knowledge of double entry was required.

Question 3

- (a) Candidates were required to write up a ledger account for advertising. Those candidates who possessed a thorough understanding of double entry performed well on this question. Most candidates presented the account in "T" format but three column running balance format was equally acceptable.

Candidates are reminded of the importance of attention to detail.

Common errors included:

complete reversal of the account

lack of dates or incorrect dates

incorrect descriptions such as "c/d" and "b/d" or "prepaid" for "balance", "profit and loss" for "income statement".

- (b) Candidates had to complete a table to name one source document from which each book of prime entry is completed. Some candidates correctly stated “invoice” for the sales journal and the purchases journal, but did not qualify to distinguish between invoices issued to customers and invoices received from suppliers and. Similarly, an answer of “credit note” was not regarded as a complete response for the sales returns journal and the purchases returns journal; it is necessary to distinguish between credit notes issued to customers and credit notes received from suppliers. Most candidates provided suitable responses for the documents used for recording entries in the petty cash book and the main cash book.
- (c) One advantage of using a book of prime entry was required. Some candidates offered a suitable response, most of which were concerned with the reduction of entries in the ledger and aiding posting to the ledger. Assisting with the preparation of financial statements, reducing errors and detecting fraud were common incorrect responses.
- (d) Very few candidates provided a wholly correct response to this question. The three items from the sales journal should have been debited to the accounts of the individual customers; the total sales for the month should have been credited to the sales account in one figure not as three separate items.

Question 4

- (a) Candidates were provided with a list of errors and asked to prepare correcting journal entries. There were some excellent responses. A number of candidates made a double entry in the sales returns and the purchases returns accounts, not appreciating that both these accounts should be debited with \$80 and the suspense account credited with \$160. A common error was to show a credit to the purchases journal rather than the purchases account. The importance of correct account names must be emphasised. For example a debit entry labelled “goods for own use” was not acceptable.
- (b) There was a wide range of answers. Once again, the use of correct descriptions is important. For example “purchases journal” was not adequate. A number of candidates showed one figure of \$160 with the label “sales returns/purchases returns”; this was not good enough as the amount to be entered in each separate account should appear.
- (c) Most candidates correctly identified the error as an error of principle. Candidates are advised not to provide a list of all possible answers; if they do so, only the first item in the list will be considered.

Question 5

- (a) A sales ledger control account and a purchases ledger control account had to be prepared. Some well-prepared candidates earned high marks. Other candidates confused the entries required in each of the accounts, and a number completely reversed the accounts.

Common errors included:

- omitting the interest or placing it in the wrong account
- including cash sales in the sales ledger control account
- duplicating the entries in both the accounts
- using incorrect descriptions such as “b/d” and “c/d”.

- (b) There was a wide range of responses to this question. A large number of candidates listed of ledger accounts or business documents rather than the books of prime entry.
- (c) The preparation of a provision for doubtful debts account proved quite challenging for many candidates.

Common errors included:

- inclusion of the actual bad debts
- omission of the opening balance of \$205 (calculated at 5% of the opening trade receivables)
- omission of the closing balance calculated at 5% of the closing balance on the sales ledger control account prepared in Part (a)
- use of incorrect descriptions such as “provision”, “b/d” and “c/d” for “balance”
- complete reversal of entries.

- (d) Comments on the adequacy of the provision for doubtful debts were required. Candidates should have compared the balance of the provision account with the actual bad debts written off during the year.

Question 6

- (a) Candidates were required to suggest a reason for the debit balance on the current accounts of partners. Many candidates understood that drawing may affect the balances, but did not emphasise that the drawings were excessive or were greater than the total profit shares. Some candidates incorrectly suggested ways to avoid debit balances on current accounts.

- (b) A calculation of the closing net assets of the partnership was required. There were many wholly correct responses.

Common errors included:

- including non-current assets at cost
- treating the bank overdraft as a current asset
- omitting current assets and/or current liabilities
- calculating working capital/omitting the non-current assets.

- (c) A calculation of the profit for the year was required. This proved a challenging question for many candidates. The opening net assets (represented by the capital accounts less the current accounts) less the drawings made during the year should have been compared with closing net assets (calculated in Part (b)). The resulting figure represented the profit for the year. Many candidates omitted the debit balances on the current accounts, or incorrectly added them to the capital account balances.

- (d) Candidates were required to prepare a profit and loss appropriation account. Most candidates correctly started with the profit they had calculated in Part (c).

Common errors included:

- describing the profit for the year as “net profit”
- including extraneous items such as drawings, interest on drawings, and capital and current account balances
- not identifying the partner to whom the salary was to be credited
- incorrect treatment of the interest and the salary.

- (e) The current accounts of the partners had to be prepared.

Common errors included:

- inclusion of extraneous items such as capital account balances
- showing the opening balances as credit balances
- incorrect descriptions such as “b/d” and “c/d” in lieu of balance, and “IC” for “interest on capital”.

- (f) There were many wholly correct answers to this question. A few candidates did not comply with the requirement to show the ratios to two decimal places. As in Part (b), some candidates incorrectly classified the bank overdraft as a current asset. Candidates are reminded that it is important to express ratios correctly. For example the quick ratio should have been expressed as 0.59 : 1 rather than 1 : 1.68 or 1 : 0.59.

- (g) Two reasons for the change in the quick ratio were required. Many candidates understood that the quick ratio would be affected by a change in the inventory. Only a few appreciated that the ratio would also be affected by a change in the bank balance because of purchase or sale of non-current assets, capital introduced or drawings made or the receipt or repayment of a long-term loan.

- (h) Candidates were asked to state a consequence of the change in the quick ratio. Many candidates correctly explained that the decrease in liquidity would result in the inability to pay short-term debts when due.

ACCOUNTING

Paper 0452/12

Paper 12

Key Messages

Questions can be set on any section of the syllabus and a good knowledge of all sections of the syllabus is necessary to achieve a good grade in the examination. Many candidates demonstrated a thorough knowledge of the subject and their ability to apply that knowledge to the various questions.

Most candidates did provide supporting calculations where appropriate. This ensured that they were able to score some of the available marks, even though the final answer was incorrect.

It is important that financial statements and accounts are presented using an acceptable format. Candidates should avoid use of inappropriate abbreviations such as “b/d” or “bbd” for “balance”, “IC” for “interest on capital” and “P Ret” for “purchases returns”.

Candidates are expected to use International Accounting Terminology.

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In **Question 2** candidates were given some short questions requiring knowledge of double entry, journal entries, accounting principles and trial balances.

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- (a) The majority of candidates correctly stated the accounting equation of capital = assets – liabilities. It was not regarded as adequate to simply show the initial letters of the words.
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- (b) There was a wide range of answers. Once again, the use of correct descriptions is important. For example “purchases journal” was not adequate. A number of candidates showed one figure of \$160 with the label “sales returns/purchases returns”; this was not good enough as the amount to be entered in each separate account should appear.
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- (d) Comments on the adequacy of the provision for doubtful debts were required. Candidates should have compared the balance of the provision account with the actual bad debts written off during the year.

Question 6

- (a) Candidates were required to suggest a reason for the debit balance on the current accounts of partners. Many candidates understood that drawing may affect the balances, but did not emphasise that the drawings were excessive or were greater than the total profit shares. Some candidates incorrectly suggested ways to avoid debit balances on current accounts.
- (b) A calculation of the closing net assets of the partnership was required. There were many wholly correct responses.
- Common errors included:
- including non-current assets at cost
 - treating the bank overdraft as a current asset
 - omitting current assets and/or current liabilities
 - calculating working capital/omitting the non-current assets.
- (c) A calculation of the profit for the year was required. This proved a challenging question for many candidates. The opening net assets (represented by the capital accounts less the current accounts) less the drawings made during the year should have been compared with closing net assets (calculated in Part (b)). The resulting figure represented the profit for the year. Many candidates omitted the debit balances on the current accounts, or incorrectly added them to the capital account balances.
- (d) Candidates were required to prepare a profit and loss appropriation account. Most candidates correctly started with the profit they had calculated in Part (c).

Common errors included:

- describing the profit for the year as “net profit”
- including extraneous items such as drawings, interest on drawings, and capital and current account balances
- not identifying the partner to whom the salary was to be credited
- incorrect treatment of the interest and the salary.

- (e) The current accounts of the partners had to be prepared.

Common errors included:

- inclusion of extraneous items such as capital account balances
- showing the opening balances as credit balances
- incorrect descriptions such as “b/d” and “c/d” in lieu of balance, and “IC” for “interest on capital”.

- (f) There were many wholly correct answers to this question. A few candidates did not comply with the requirement to show the ratios to two decimal places. As in Part (b), some candidates incorrectly classified the bank overdraft as a current asset. Candidates are reminded that it is important to express ratios correctly. For example the quick ratio should have been expressed as 0.59 : 1 rather than 1 : 1.68 or 1 : 0.59.
- (g) Two reasons for the change in the quick ratio were required. Many candidates understood that a the quick ratio would be affected by a change in the inventory. Only a few appreciated that the ratio would also be affected by a change in the bank balance because of purchase or sale of non-current assets, capital introduced or drawings made or the receipt or repayment of a long-term loan.
- (h) Candidates were asked to state a consequence of the change in the quick ratio. Many candidates correctly explained that the decrease in liquidity would result in the inability to pay short-term debts when due.

ACCOUNTING

Paper 0452/13

Paper 13

Key messages

This paper covered a diverse range of questions requiring both computational and analytical abilities. The paper provided opportunities for candidates to demonstrate their knowledge and understanding from all parts of the syllabus.

Question 1 consisted of ten multiple choice items covering topics across the whole of the syllabus.

In **Question 2** candidates were given some short questions requiring knowledge of double entry, business documents and cash books

Question 3 involved the preparation of an expense account, an understanding of inventory valuation, financial statements and their limitations.

The topics covered by **Question 4** were the effect of errors on a trial balance and profit correction.

The topic of **Question 5** was depreciation. Ledger accounts for the asset, provision for depreciation and disposal had to be written up together with extracts from the financial statements.

Question 6 was centred on the topic of limited companies. Candidates were required to prepare appropriation accounts for two limited companies and the statement of financial position for one company. Related theory questions were also included.

General comments

All the questions on the paper were compulsory and covered various topics on the syllabus.

Candidates are expected to have a good knowledge of all sections of the syllabus. Candidates who performed well demonstrated thorough knowledge of the subject and their ability to apply that knowledge to the various questions.

Most candidates did provide supporting calculations where appropriate. This ensured that they were able to earn at least some of the available marks, even though the final answer was incorrect.

It is important that financial statements and accounts are presented using an acceptable format. Candidates are also reminded that inappropriate use of abbreviations may result in the loss of marks. Abbreviations such as “b/d” or “bbd” for “balance”, “GR” for “general reserve” and “NCL” for “non-current liabilities” are not acceptable.

Candidates are expected to use International Accounting Terminology.

It is important to read through a question carefully before attempting an answer.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere. It is important that the candidate indicates to examiners that this has been done. A note "continued on page..." or "please see page..." would ensure that this additional work is not overlooked.

Comments on specific questions

Question 1

Candidates' performance in completing the ten multiple choice questions was varied. Items **(c)**, **(e)**, **(g)** and **(i)** were particularly well answered.

Question 2

- (a)** Candidates were required to name three business documents. Responses were generally good. Receipt, credit note and bank statement were common incorrect answers.
- (b)** This consisted of three short theory questions relating to cash discount. Answers were generally good, but a number of candidates mixed up cash discount with trade discount.
- (c)** A list of transactions was provided and candidates were asked to state the double entry which would be made to record each transaction. There were many wholly correct responses. In this type of question it is important to provide precise account names. For example "cash book" and "cash/bank" were not regarded as acceptable in lieu of "cash account" or "bank account". A few candidates reversed the entries for transaction 5.
- (d)** Some candidates found difficulty in identifying transaction 3 as the contra entry.
- (e)** Candidates were required to calculate the bank balance which would appear in the statement of financial position. Some candidates found this question difficult, with many trying to reconcile the cash book and bank statement figures, rather than calculate the bank value.
- (f)** Many candidates correctly identified the section of the statement of financial position in which the bank balance would appear.
- (g)** Most candidates provided a correct answer, based on the answer given in Part **(f)**.

Question 3

- (a) This required an explanation of the difference between a prepayment and an accrual. Candidates frequently referred to a prepayment as an amount paid in advance and an accrual as an amount owed, but many omitted reference to any service or benefit. Some incorrectly referred to a supplier in payment for goods.
- (b) This required the completion of an insurance account. Candidates' responses were mixed. Common errors included:
- Incorrect dates or omission of years
 - Opening \$180 balance on the credit side
 - Closing \$195 balance either on the credit side or completely omitted
 - Reversal of some or all entries
 - Incorrect descriptions
- (c) Many candidates correctly stated that the insurance would appear in the expenses section of the income statement. The accruals/matching principle was often correctly identified, but a few candidates incorrectly suggested the principle of prudence.
- (d) The majority of candidates correctly identified the business as a service business. They also correctly named two items which would appear in the income statement of a trading business but not in the income statement of a service business.
- (e) There were some excellent responses to part (i) which required candidates to name the accounting principle which prohibits inventory being valued at normal selling price. Part (ii) required candidates to state how inventory ought to be valued. Responses were good although some candidates referred to "selling price", "market value" or "net book value", instead of "net realisable value".
- (f) Candidates were required to calculate the value of inventory and there were many correct answers. Some candidates correctly calculated the \$20 scrap value, but then added rather than deducted the \$7 selling expenses.
- (g) A significant number of candidates appear to have misunderstood part (i) and their answers incorrectly referred to what financial statements should show or offered advice about improving performance. Good answers focused on the non-monetary aspects, although there was some incorrect reference to fraud.
- Part (ii) required candidates to indicate where a number of items would appear in financial statements. A number of candidates did not appreciate that some of the items appear in both the income statement and the statement of financial position.

Question 4

- (a) A table had to be completed to indicate whether the trial balance would be affected by various errors. There were some good answers.
- (b) Candidates were required to prepare a statement of corrected profit. This proved quite demanding for some candidates and only a few candidates earned full marks. Common errors included:

Error 1 Deduction of \$160 goods on sale or return

Error 3 Deduction of \$250 goods taken for own use

Error 4 Space left blank (should show "no effect", "nil", "0" or a dash)

Error 5 \$600 or \$300 added for vehicle repairs payment \$300 incorrectly credited to vehicle repairs

Some candidates did not include the draft profit in the calculation of the corrected profit for the year.

- (c) Most candidates correctly identified Error 4 as an error of commission.

Question 5

- (a) Using the reducing (diminishing) balance method of depreciation, candidates were required to calculate the accumulated depreciation provided on sold fixtures and fittings. Common errors included:

- incorrect calculation of the depreciation for Year 2
- leaving the calculation incomplete and not totalling the two years' depreciation
- applying the straight-line method of depreciation rather than the reducing (diminishing) balance method
- basing the calculation on the total cost of fixtures and fittings rather than the cost of the fixtures and fittings sold

- (b) Candidates were required to prepare ledger accounts for fixtures and fittings, provision for depreciation and disposal accounts. Many candidates correctly prepared the asset account, but a significant number had problems preparing the other two accounts. Common errors included:

- reversal of some or all the entries in the accounts
- including depreciation in the asset account
- not using the depreciation figure calculated in Part (a) in the provision for depreciation account and the disposal account
- incorrect depreciation for the year (often without workings being shown)
- incorrect descriptions

- (c) Extracts from the income statement and the statement of financial position were required. Although there were many acceptable answers, this question proved challenging. A significant number of candidates did not use the relevant figures from the ledger accounts prepared in Part (b) for the depreciation charge for the year and the loss on disposal. In the statement of financial position extract, a number of candidates used the balances at the start of the year rather than the closing balances calculated in the ledger accounts in Part (b).

Question 6

- (a) Candidates were required to suggest why a sole trader may wish to convert his business into a limited company. Many correctly explained about the advantage of limited liability or access to more capital.
- (b) The vast majority of candidates correctly identified preference shares as another type of share capital.
- (c) This required candidates to explain why a company might wish to create a general reserve. It is important to understand that a general reserve is not represented by actual money. The reserve is the setting aside of undistributed profit. Good responses mainly referred to ploughing back profit and re-investment.
- (d) Candidates were required to calculate the profit after interest for each of two companies. A significant number of candidates incorrectly deducted the ordinary share dividend from the profit for the year rather than deducting the debenture interest.
- (e) An appropriation account for each of two companies had to be prepared. Some candidates were not able to earn all the available marks because of incorrect presentation. Descriptions were also frequently incorrect such as “net profit” rather than “profit for the year” and “ordinary shares” rather than “ordinary share dividend”. Some candidates also showed incorrect figures for the ordinary share dividends.
- (f) Candidates were required to explain why the two companies in the question, which had the same capital employed, could have different retained profits for the year. This required a comparison of the two companies rather than generalisations.
- (g) A statement of financial position for a limited company had to be prepared. Any generally recognised form of presentation was acceptable. Some candidates incorrectly classified items or provided incorrect descriptions and figures.
- (h) Candidates were required to suggest reasons why an investor in the two companies would be happier with the investment in one of them. This required responses directly related to this particular investor and the particular companies concerned.

ACCOUNTING

Paper 0452/21

Paper 21

Key Messages

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus.

The first part of **Question 1** concentrated on the ledger. Candidates were then required to calculate two ratios and answer related theory questions. The question also included parts on inventory valuation.

Question 2 was on the topic of manufacturing accounts, with candidates being required to prepare a manufacturing account and an income statement. The effects of errors on profit were also included.

In **Question 3**, candidates were required to prepare a subscriptions account and a receipts and payments account. Related theory questions were also included.

Question 4 required candidates to explain some entries in an expense account. Candidates were required to calculate and comment on the percentage of gross profit to revenue.

Question 5 was on the topic of limited companies and ratios.

General Comments

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Many candidates provided supporting calculations where appropriate. This ensured that they were able to earn at least some of the available marks, even though the final answer was incorrect.

It is important to read through a question very carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

Candidates are advised to think carefully about the answers they provide. Where a column is headed with a dollar sign, candidates should realise that an amount of money is required rather than just a tick.

The spaces provided in the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate that this has been done. For example, a note "please refer to page..." or "continued on page..." would ensure that this additional work is not overlooked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" or "b/d" for "balance brought down", "PC" for "prime cost", "GP" for "gross profit" and "OS" for "ordinary share capital" are not acceptable.

It is expected that candidates will use International Accounting Terminology. The use of "old" terminology such as "stock", "sales", "debtors" should be avoided.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

- (a) Candidates were required to state two advantages of dividing the ledger into three sections. Many candidates correctly explained about sharing the workload and easy reference to accounts. Common incorrect responses included reducing the number of errors and the preparation of financial statements.
- (b) The majority of candidates were able to name an account which would appear in the nominal (general) ledger.
- (c) Most candidates were able to prepare parts of the ledger accounts.

Common errors included –
Incorrect descriptions such as “b/d” for “balance”, “cheque” for “bank” and “overdue” for “interest”
Showing the gross figures for the purchases and the returns rather than the net figures
Omitting the cash discount
Omission of dates or use of incorrect dates
- (d) Candidates were required to state the formula for the calculation of the payment period for trade payables. It is important to indicate that only the credit purchases are included in the formula not the total purchases.
- (e) The payment period for trade payables had to be calculated. It was necessary to round the answer up to the next whole day.
- (f) Most candidates were able to suggest an advantage to the trader of paying before the due date.
- (g) One disadvantage to the trader of paying **before** the due date was required. It would appear that many candidates misread this question as many answers referred to the disadvantages of paying **after** the due date.
- (h) Candidates were required to explain why inventory should always be valued at the lower of cost and net realisable value. Many correctly referred to applying the principle of prudence and the important of not overstating the profit.
- (i) A significant number of candidates found it difficult to explain the meaning of the term “net realisable value”. Some candidates incorrectly discussed the net book value of non-current assets.
- (j) A table had to be completed to show the effect of an over-valuation of the inventory. There was a wide range of responses, but most candidates performed reasonably well.

Question 2

- (a) Candidates were required to select the appropriate figures and prepare a manufacturing account. It is important to appreciate that a manufacturing account is used to calculate the total cost of goods produced. The total of the prime cost plus the factory overheads is adjusted for the work in progress.
Candidates are reminded of the importance of labelling the prime cost and the cost of production and of using the correct terminology.

Common errors included –
Inclusion of extraneous items such as revenue, finished goods and office expenses
Not deducting the purchases returns from the purchases figure to show the net purchases
Inclusion of the direct wages in the factory overheads and the indirect wages in the prime cost
Miscalculations of the adjustments to direct wages, and rates and insurance
Deducting the overheads from the prime cost

- (b) An income statement had to be prepared for a manufacturing business. The majority of candidates correctly included the cost of production calculated in part (a), but a number omitted the closing inventory or treated it incorrectly. Some candidates prepared the trading account section of the income statement but did not show the profit and loss section. The use of correct terminology is important. A number of candidates included extraneous items such as factory overheads.
- (c) A table had to be completed to show the effect on the profit for the year of four errors. Despite the columns being headed with dollar signs, a significant number of candidates used a tick to indicate their answer instead of writing an amount of money. Candidates are advised to read a question very carefully before attempting an answer.

Question 3

- (a) Using information provided, candidates were required to prepare a subscriptions account. A thorough knowledge and understanding of double entry was required in order to earn the available marks.

Common errors included –

Including extraneous items such as assets, liabilities and expenses

Incorrect descriptions such as “b/d” or “accrued” for “balance”, “income statement” for “income and expenditure account” and “subscriptions” for “bank/cash”

Omission of dates or use of incorrect dates

- (b) Candidates were required to state the section of the statement of financial position in which the balance of the subscriptions account (prepared in Part (a)) would appear. There were many correct answers. A number of candidates appeared not to understand what was required and answers often referred to the income and expenditure account.

- (c) Many candidates performed well on this question.

Common errors included –

Including extraneous items such as accruals, opening assets and opening liabilities

Incorrect descriptions such as “b/d” for “balance”, “proceeds” for “sale of equipment”, “purchases” for “equipment”, “net receipts” for “open day receipts”

Omission of the opening bank balance

Presenting the information in statement format rather than account format

- (d) Candidates were required to calculate two figures for inclusion in the income and expenditure account and to provide a reason in each case.

A thorough knowledge of accounting would have meant that candidates would have stated that \$700 would be shown for the loss on the sale of the equipment. As this is a sale of a capital item, only the loss on the sale would be included. A number of candidates correctly calculated a figure of \$3600 for the rent and were also able to state that this was an application of the accruals (matching) principle, but very few went on to explain that only the expense for the year is charged against the profit for the year.

Question 4

- (a) Many candidates found this part difficult. The opening debit balance represented rates paid in advance where the money had been paid in one year but the benefit would not be received until the following year. This would appear as a current asset in the statement of financial position. The opening credit balance represented rent accrued, where the benefit had already been received but was not yet paid for. This is a current liability.
- (b) Only candidates providing full explanations of two entries in the rent and rates account were able to earn all the available marks. The entry for “bank” represented the total amount paid during the year by cheque for rent and rates. The entry for “income statement” represented the amount transferred to the income statement for the rent and rates relating to that particular financial year.
- (c) Candidates were expected to explain that under the accruals (matching) principle, adjustments were made for accruals and prepayments so that only the rent and rates for that particular year were transferred to the income statement.
- (d) A calculation of the gross profit as a percentage of revenue was required. Many candidates earned all the available marks. A few did not provide an answer correct to two decimal places.
- (e) Many candidates correctly suggested a fall in the selling price and an increased in the cost price of the goods as the two reasons for the fall in the gross profit percentage. Incorrect responses referred to quantities of goods bought and sold or to a change in the expenses.
- (f) Candidates were expected to explain that the bank manager would be interested in the ability of the trader to repay any requested loan/overdraft and his ability to pay any interest when due.
- (g) The majority of candidates were able to name two other persons who would be interested in the financial statements of the trader. A few incorrectly listed owners, partners or shareholders. The bank manager was also not an acceptable answer in this instance as the question clearly required other business people.

Question 5

- (a) Candidates were provided with a trial balance and an appropriation account of a limited company and were asked to prepare a statement of financial position. Any recognised form of a statement of financial position was acceptable. Many candidates provided good responses to this part.

Some candidates incorrectly included the provision for doubtful debts in the current liabilities. Others showed it as a deduction from the total current assets rather than from the trade receivables. Some of those correctly deducting it from the trade receivables just showed the figure and did not state what the figure represented.

The bank overdraft was often treated as a current asset. The proposed ordinary shared dividend was often omitted from the current liabilities. Debenture interest was sometimes incorrectly included in the current liabilities.

In the capital and reserves section, it is important to use correct descriptions. For example, “transfer to general reserve” is not an acceptable description for “general reserve”. Similarly “net profit” or “profit” is not acceptable in lieu of “retained earnings”. The debentures should not be shown within the capital and reserves section.

- (b) Some candidates were able to provide correct answers. Others provided only partiality correct statements. For example, it is important to explain that debentures are long term loans not simply loans, and that they receive a fixed rate of interest, not just a fixed rate.
- (c) The dividend given to ordinary shareholders may reduce if additional debentures are issued as the debentures interest is an expense in the income statement. Common incorrect answers referred to profit shares of partners, loss of money by the ordinary shareholders or to dividends being paid late.
- (d) A definition of the term “rate of inventory turnover” was required. Many candidates referred to the number of times inventory is sold and made no reference to the replacing of the inventory.

Most candidates correctly stated the formula for the calculation of the rate of inventory turnover and were able to provide a correct calculation. It was necessary to express the answer correct to two decimal places.

- (e) Candidates were asked to comment on the change in the rate of inventory turnover over three years. Many correctly stated that the rate had decreased but were unable to develop their response with comments on falling sales or higher inventory levels.

ACCOUNTING

Paper 0452/22

Paper 22

Key Messages

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus.

The first part of **Question 1** concentrated on the ledger. Candidates were then required to calculate two ratios and answer related theory questions. The question also included parts on inventory valuation.

Question 2 was on the topic of manufacturing accounts, with candidates being required to prepare a manufacturing account and an income statement. The effects of errors on profit were also included.

In **Question 3**, candidates were required to prepare a subscriptions account and a receipts and payments account. Related theory questions were also included.

Question 4 required candidates to explain some entries in an expense account. Candidates were required to calculate and comment on the percentage of gross profit to revenue.

Question 5 was on the topic of limited companies and ratios.

General Comments

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Many candidates provided supporting calculations where appropriate. This ensured that they were able to earn at least some of the available marks, even though the final answer was incorrect.

It is important to read through a question very carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

Candidates are advised to think carefully about the answers they provide. Where a column is headed with a dollar sign, candidates should realise that an amount of money is required rather than just a tick.

The spaces provided in the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate that this has been done. For example, a note "please refer to page..." or "continued on page..." would ensure that this additional work is not overlooked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" or "b/d" for "balance brought down", "PC" for "prime cost", "GP" for "gross profit" and "OS" for "ordinary share capital" are not acceptable.

It is expected that candidates will use International Accounting Terminology. The use of "old" terminology such as "stock", "sales", "debtors" should be avoided.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

- (a) Candidates were required to state two advantages of dividing the ledger into three sections. Many candidates correctly explained about sharing the workload and easy reference to accounts. Common incorrect responses included reducing the number of errors and the preparation of financial statements.
- (b) The majority of candidates were able to name an account which would appear in the nominal (general) ledger.
- (c) Most candidates were able to prepare parts of the ledger accounts.

Common errors included –
Incorrect descriptions such as “b/d” for “balance”, “cheque” for “bank” and “overdue” for “interest”
Showing the gross figures for the purchases and the returns rather than the net figures
Omitting the cash discount
Omission of dates or use of incorrect dates
- (d) Candidates were required to state the formula for the calculation of the payment period for trade payables. It is important to indicate that only the credit purchases are included in the formula not the total purchases.
- (e) The payment period for trade payables had to be calculated. It was necessary to round the answer up to the next whole day.
- (f) Most candidates were able to suggest an advantage to the trader of paying before the due date.
- (g) One disadvantage to the trader of paying **before** the due date was required. It would appear that many candidates misread this question as many answers referred to the disadvantages of paying **after** the due date.
- (h) Candidates were required to explain why inventory should always be valued at the lower of cost and net realisable value. Many correctly referred to applying the principle of prudence and the important of not overstating the profit.
- (i) A significant number of candidates found it difficult to explain the meaning of the term “net realisable value”. Some candidates incorrectly discussed the net book value of non-current assets.
- (j) A table had to be completed to show the effect of an over-valuation of the inventory. There was a wide range of responses, but most candidates performed reasonably well.

Question 2

- (a) Candidates were required to select the appropriate figures and prepare a manufacturing account. It is important to appreciate that a manufacturing account is used to calculate the total cost of goods produced. The total of the prime cost plus the factory overheads is adjusted for the work in progress.
Candidates are reminded of the importance of labelling the prime cost and the cost of production and of using the correct terminology.

Common errors included –
Inclusion of extraneous items such as revenue, finished goods and office expenses
Not deducting the purchases returns from the purchases figure to show the net purchases
Inclusion of the direct wages in the factory overheads and the indirect wages in the prime cost
Miscalculations of the adjustments to direct wages, and rates and insurance
Deducting the overheads from the prime cost

- (b) An income statement had to be prepared for a manufacturing business. The majority of candidates correctly included the cost of production calculated in part (a), but a number omitted the closing inventory or treated it incorrectly. Some candidates prepared the trading account section of the income statement but did not show the profit and loss section. The use of correct terminology is important. A number of candidates included extraneous items such as factory overheads.
- (c) A table had to be completed to show the effect on the profit for the year of four errors. Despite the columns being headed with dollar signs, a significant number of candidates used a tick to indicate their answer instead of writing an amount of money. Candidates are advised to read a question very carefully before attempting an answer.

Question 3

- (a) Using information provided, candidates were required to prepare a subscriptions account. A thorough knowledge and understanding of double entry was required in order to earn the available marks.

Common errors included –

Including extraneous items such as assets, liabilities and expenses

Incorrect descriptions such as “b/d” or “accrued” for “balance”, “income statement” for “income and expenditure account” and “subscriptions” for “bank/cash”

Omission of dates or use of incorrect dates

- (b) Candidates were required to state the section of the statement of financial position in which the balance of the subscriptions account (prepared in Part (a)) would appear. There were many correct answers. A number of candidates appeared not to understand what was required and answers often referred to the income and expenditure account.

- (c) Many candidates performed well on this question.

Common errors included –

Including extraneous items such as accruals, opening assets and opening liabilities

Incorrect descriptions such as “b/d” for “balance”, “proceeds” for “sale of equipment”, “purchases” for “equipment”, “net receipts” for “open day receipts”

Omission of the opening bank balance

Presenting the information in statement format rather than account format

- (d) Candidates were required to calculate two figures for inclusion in the income and expenditure account and to provide a reason in each case.

A thorough knowledge of accounting would have meant that candidates would have stated that \$700 would be shown for the loss on the sale of the equipment. As this is a sale of a capital item, only the loss on the sale would be included. A number of candidates correctly calculated a figure of \$3600 for the rent and were also able to state that this was an application of the accruals (matching) principle, but very few went on to explain that only the expense for the year is charged against the profit for the year.

Question 4

- (a) Many candidates found this part difficult. The opening debit balance represented rates paid in advance where the money had been paid in one year but the benefit would not be received until the following year. This would appear as a current asset in the statement of financial position. The opening credit balance represented rent accrued, where the benefit had already been received but was not yet paid for. This is a current liability.
- (b) Only candidates providing full explanations of two entries in the rent and rates account were able to earn all the available marks. The entry for “bank” represented the total amount paid during the year by cheque for rent and rates. The entry for “income statement” represented the amount transferred to the income statement for the rent and rates relating to that particular financial year.
- (c) Candidates were expected to explain that under the accruals (matching) principle, adjustments were made for accruals and prepayments so that only the rent and rates for that particular year were transferred to the income statement.
- (d) A calculation of the gross profit as a percentage of revenue was required. Many candidates earned all the available marks. A few did not provide an answer correct to two decimal places.
- (e) Many candidates correctly suggested a fall in the selling price and an increased in the cost price of the goods as the two reasons for the fall in the gross profit percentage. Incorrect responses referred to quantities of goods bought and sold or to a change in the expenses.
- (f) Candidates were expected to explain that the bank manager would be interested in the ability of the trader to repay any requested loan/overdraft and his ability to pay any interest when due.
- (g) The majority of candidates were able to name two other persons who would be interested in the financial statements of the trader. A few incorrectly listed owners, partners or shareholders. The bank manager was also not an acceptable answer in this instance as the question clearly required other business people.

Question 5

- (a) Candidates were provided with a trial balance and an appropriation account of a limited company and were asked to prepare a statement of financial position. Any recognised form of a statement of financial position was acceptable. Many candidates provided good responses to this part.

Some candidates incorrectly included the provision for doubtful debts in the current liabilities. Others showed it as a deduction from the total current assets rather than from the trade receivables. Some of those correctly deducting it from the trade receivables just showed the figure and did not state what the figure represented.

The bank overdraft was often treated as a current asset. The proposed ordinary shared dividend was often omitted from the current liabilities. Debenture interest was sometimes incorrectly included in the current liabilities.

In the capital and reserves section, it is important to use correct descriptions. For example, “transfer to general reserve” is not an acceptable description for “general reserve”. Similarly “net profit” or “profit” is not acceptable in lieu of “retained earnings”. The debentures should not be shown within the capital and reserves section.

- (b) Some candidates were able to provide correct answers. Others provided only partiality correct statements. For example, it is important to explain that debentures are long term loans not simply loans, and that they receive a fixed rate of interest, not just a fixed rate.
- (c) The dividend given to ordinary shareholders may reduce if additional debentures are issued as the debentures interest is an expense in the income statement. Common incorrect answers referred to profit shares of partners, loss of money by the ordinary shareholders or to dividends being paid late.
- (d) A definition of the term “rate of inventory turnover” was required. Many candidates referred to the number of times inventory is sold and made no reference to the replacing of the inventory.

Most candidates correctly stated the formula for the calculation of the rate of inventory turnover and were able to provide a correct calculation. It was necessary to express the answer correct to two decimal places.

- (e) Candidates were asked to comment on the change in the rate of inventory turnover over three years. Many correctly stated that the rate had decreased but were unable to develop their response with comments on falling sales or higher inventory levels.

ACCOUNTING

Paper 0452/23

Paper 23

Key Messages

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It is important that candidates appreciate that a question can be set on any section of the syllabus. A thorough knowledge of all sections is necessary in order to perform well.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Many candidates provided supporting calculations where appropriate. This ensured that they were able to earn at least some of the available marks, even though the final answer was incorrect.

Candidates should read through each question carefully before attempting an answer.

The spaces provided in the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate to Examiners that this has been done. For example, a note "please refer to page...." or "continued on page....." would ensure that this additional work is not overlooked.

Candidates are advised to avoid the use of inappropriate abbreviations such as "bbd" or "b/d" for "balance brought down", "GP" for "gross profit" and "NP" for "profit for the year".

It is expected that candidates will use International Accounting Terminology.

General Comments

The first sections of **Question 1** consisted of theory questions relating to petty cash books. Candidates were then required to write up sales and sales returns journals and to make the postings to the ledger. The rest of the question concentrated on the collection period for trade receivables.

The first sections of **Question 2** concentrated on bad debts, bad debts recovered and provisions for doubtful debts. The remainder of the question consisted of theory question relating to capital and revenue expenditure and receipts.

Question 3 required candidates to prepare an income statement and appropriation account for a partnership business. The current account of one partner also had to be written up.

In **Question 4** candidates were required to calculate credit sales and credit purchases. They then had to prepare the trading account section of an income statement showing the closing inventory. The final sections of the question related to persons interested in the financial statements of a trader.

Question 5 required candidates to calculate a series of ratios and to answer related theory questions. The last sections of the question were on the effect of transactions on working capital and the problems of an inadequate amount of working capital.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

- (a) Candidates were asked to state two reasons for maintaining a petty cash book. Many were able to provide acceptable answers.
- (b) An explanation of the imprest system of petty cash was required. It was necessary to explain that the amount spent is reimbursed so that the petty cashier starts each month with the same amount.
- (c) One advantage of the imprest system was required. A number of candidates provided an advantage of maintaining a petty cash book rather than an advantage of the imprest system.
- (d) A completed petty cash book was provided and candidates were asked to calculate the amount required to restore the imprest at the end of the month. The correct answer was the total of the amount paid during the month; a number of candidates incorrectly stated the amount of the closing balance.
- (e) Candidates had to state the double entry required to restore the imprest. Most candidates correctly showed a debit to the petty cash book. A common error was to show a credit to the cash book rather than naming the specific column (cash or bank) in the cash book.
- (f) This required candidates to state how the double entry would be completed for the items in the cleaning column of the petty cash book. The total of the column would be debited to the cleaning account in the ledger.
- (g) Candidates were required to state how the double entry for the items in the ledger accounts column would be completed. It was necessary to state that B Smith's account would be debited with \$36 and W Jones' account would be debited with \$18.
- (h) Using data provided, candidates were required to write up a sales journal and a sales returns journal. The sales journal is a list of the names of customers to whom goods have been sold on credit, together with the date and the amount of the invoice. The sales returns journal follows a similar pattern for goods returned by credit customers. At the end of the month the journals are totalled and the totals transferred to the appropriate accounts in the general ledger. A few candidates incorrectly attempted to show entries which may appear in the general journal (a debit entry and a credit entry). The trade discount should have been deducted and the net amounts shown in the second column in the sales journal. A significant number of candidates did not deduct the trade discount when goods were returned and entered the gross figure in the sales returns journal.

Candidates were required to post the entries in the sales journal and the sales returns journal to the accounts of the credit customers in the sales ledger. Most candidates managed to make the correct entries based on the amounts shown in the journals.

Common errors included:

- incorrect descriptions such as "goods" for "sales"
- omission of dates, or use of incorrect dates
- inclusion of extraneous items such as trade discount.

The sales account and the sales returns account had to be written up. It is important to remember that only the total of the journal is transferred to the appropriate account at the end of the month: the individual transactions are not recorded in the sales and sales returns accounts.

- (i) Most candidates correctly calculated the collection period for trade receivables. It was necessary to round the answer up to the next whole day.
- (j) Candidates were required to state whether the trader would be satisfied with the collection period. The majority provided an appropriate answer based on their answer to (i).
- (k) The majority of candidates understood how the payment period for trade payables can be affected by the collection period for trade receivables.

Question 2

- (a) Most candidates were able to suggest two ways in which the possibility of bad debts could be reduced.
- (b) Candidates were required to prepare a journal entry to write off a bad debts. Many provided a wholly correct response, though a number omitted the narrative.
- (c) An explanation of the term “provision for doubtful debts” was required. There were some correct responses, but a number of candidates incorrectly described the setting aside of an amount of money.
- (d) Most candidates were able to name two accounting principles which are applied when a provision for doubtful debts is maintained.
- (e) Candidates were required to prepare a journal entry to record an adjustment to a provision for doubtful debts. A common error was to make an entry for the whole of the new provision rather than the amount of the decrease in the provision.
- (f) The majority of candidates provided an acceptable explanation of the term “bad debt recovered”.
- (g) Many candidates provided acceptable explanations of the terms “capital expenditure” and “revenue expenditure”. Most candidates regarded capital receipts as money received from the sale of non-current assets and did not appreciate that such money could also come from loans or capital introduced by the owner. An explanation of the term “revenue receipts” also proved challenging for some candidates. Such receipts are monies received from the normal trading activities of a business such as sales of goods, rent received etc.
- (h) A table had to be completed to indicate the effect on non-current assets and profit of recording capital expenditure as revenue expenditure. Most candidates performed well on this question.

Question 3

- (a) The majority of candidates provided two correct advantages of being a partner rather than a sole trader. A few candidates provided indefinite answers such as “share profits and losses”. Only one of these is an advantage, the other is a disadvantage.
- (b) Using information provided, candidates were required to prepare the income statement of a partnership. A number of candidates attempted to calculate a gross profit, not appreciating that this was not a trading business. This resulted in the inclusion of a number of extraneous items within the statement.

A common error was to make incorrect adjustments for accruals and prepayments – adding where the amount should have been deducted and vice versa. It is usual to show the name of the asset being depreciated. The difference between the gains and the expenses was often incorrectly described as “net profit” rather than “profit for the year”.

- (c) Candidates were asked to prepare the appropriation account of a partnership. There were some good responses.

Common errors included:

inclusion of extraneous items such as drawings, capital account and current account balances
incorrect calculation of interest on capital for the partner who withdrew some capital during the year.

- (d) The current account of one partner had to be prepared. Many candidates correctly included the items from the appropriation account in (c). Candidates are reminded of the need to use correct descriptions. For example, the use of “bbd” or “b/d” in lieu of “balance” and “I” for “interest on capital” should be avoided.

Question 4

- (a) Candidates were required to calculate the credit purchases. An arithmetic calculation or a total trade payables account was equally acceptable.
- (b) The credit sales had to be calculated. Once again, a calculation or a ledger account were acceptable.
- (c) Using the sales and purchases calculated in (a) and (b) and additional information, candidates were required to prepare the trading account section of an income statement and calculate the value of the closing inventory. A number of candidates did not include the carriage inwards. The gross profit should have been 20% of the candidate's figure for revenue. This then allowed candidates to insert the cost of sales and the "missing" figure for closing inventory. Candidates are reminded of the need to use correct terminology such as "revenue" and "inventory".
- (d) Many candidates were able to identify two reasons why credit suppliers would be interested in the financial statements of the trader.
- (e) The majority of candidates correctly identified two other business persons who would be interested in the financial statements of the trader. A few incorrectly included owners, partners or shareholders. A credit supplier was not an acceptable answer in this instance as the question clearly required other business people.

Question 5

- (a) Candidates were required to calculate the gross profit as a percentage of revenue. There were many correct answers. It was necessary to show the answer correct to two decimal places.
- (b) Two reasons for the fall in the gross profit percentage were required. Many candidates correctly suggested a fall in the selling price and an increase in the cost price of the goods. Incorrect responses referred to quantities of goods bought and sold or to a change in the expenses.
- (c) The percentage of profit for the year to revenue had to be calculated. Most candidates correctly deducted the expenses from the gross profit to arrive at the profit for the year and were able to calculate the correct percentage. The answer was required to be shown correct to two decimal places.
- (d) Candidates were required to suggest two ways in which the percentage of profit for the year could be improved. Many correctly suggested reducing or controlling expenses, but only a few suggested increasing other income. Some incorrectly suggested increasing sales rather than increasing the gross profit percentage.
- (e) A calculation of the return on capital employed was required. It was expected that candidates would use the profit for the year calculated in (c) and calculate this as a percentage of the given figure for capital employed. An answer correct to two decimal places was required.
- (f) The importance of the return on capital employed had to be explained. This proved to be very challenging for most candidates. This ratio shows the profit earned for each \$100 used in the business. Many candidates incorrectly referred to the profit earned on the capital invested. Capital employed represents all the long-term sources of finance which include long term loans as well as capital provide by the owner(s). The higher the percentage, the more efficiently the total funds are being employed.
- (g) Candidates were required to calculate the current ratio. There were many correct responses. An answer was required correct to two decimal places.
- (h) The quick (acid test) ratio had to be calculated correct to two decimal places. There were many correct responses.
- (i) Candidates were required to explain why the quick (acid test) ratio is a more reliable indicator of liquidity than the current ratio. Candidates should have explained that the quick (acid test) ratio excludes inventory from the calculation as it is the least liquid current asset.

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- (j) A table had to be completed to indicate the effect of various transactions on the working capital of a business. Most candidates performed well on this part.
- (k) Candidates were required to identify two problems a business may encounter if the working capital is inadequate. Correct responses included the short term problems such as inability to pay current debts when due or take advantage of business opportunities. Long term implications such as inability to purchase non-current assets or the eventual closure of the business were not regarded as acceptable responses.