

# ACCOUNTING

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Paper 9706/11  
Multiple Choice

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

## General comments

Performance of the candidates was not satisfactory on this paper. Only a few candidates scored more than 15 marks on this paper. This is reflected in the mean mark for the paper which was 11.

Very few questions appeared to be easy for candidates. In fact only **Question 8** was answered correctly by more than 70% of candidates. A significant number of questions proved to be challenging to the candidates. These have been reviewed below.

## Specific questions

### Question 2

This required candidates to assess the effect on profit of a prepayment not being accounted for. The prepayment was for three months and was half of the amount paid ( $\$3000 \div 2 = 1500$ ). Thus the effect would be to understate the profit by this amount, or the key **C**.

### Question 4

This asked for the amount to post in respect of a contra entry between sales and purchases ledger control accounts. The **rule** here is that the lower of the two amounts should be selected, in this case \$500. Many candidates wrongly selected the higher amount of \$750 and the difference between the two (\$250).

### Question 6

This was a challenging question. From the given data it is possible to work out the gross profit margin of 40% and from that the total gross profit of \$24 000, of which \$10 000 was earned by department X. If the total profit for the year was \$8000, total expenses must be \$16 000 of which department X was charged with 55% or \$8800. Thus department X's profit for the year was \$1200 ( $\$10\,000 - 8800$ ).

### Question 9

The key to solving this problem was to recognise that the trade receivables figure was \$45 000. This is the figure on which the trade receivable days would be calculated, thus the credit sales figure was \$231 013, or the key C.

### Question 13

Whilst it is usual to write the appropriation account in columnar form with additions and deductions, it is part of the double entry system and therefore has a debit and credit side when properly written out. Thus the profit for the year will be debited in the income statement and credited to the appropriation account. This gave the key D.

### Question 26

This is a question where a **rule** can be applied. A trader would only make a product rather than buy it in when the variable cost of manufacturing it is lower than the purchase cost, or the cost of buying it is greater than the variable cost of manufacturing it. D was the key to this question.

### Question 28

This question proved challenging to many candidates. For 1000 units, the total variable costs were \$28 000, or \$2.80 per unit. The fixed costs were \$14 000 and would remain at that figure for 1200 units. Thus the total contribution for 1200 units would be \$24 500 ( $10\,500 + 14\,000$ ). The sales revenue would increase to \$60 000 for 1200 units so the variable costs at that level must have been \$35 500, or just over \$29.58 per unit. Thus the increase in variable costs per unit was \$1.59.

### Question 29

This required the calculation of the contribution to sales ratio (C/S ratio), which was 55%. Dividing the total fixed costs of \$330 000 by 55% gave the break even revenue of \$600 000.

### Overall comment

There seems to be a general lack of understanding of double entry bookkeeping. Questions on costing also proved to be difficult to candidates.

# ACCOUNTING

**Paper 9706/12**  
**Multiple Choice**

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

## **General comments**

Candidates performed well on this paper. Almost 69% candidates achieved a score of 15 or more and some candidates scored the maximum of 30 marks. The mean mark was 17.8.

Many questions proved easy to candidates. More than 70% of candidates answered questions **2, 9, 10, 13, 14, 15, 21, 22,** and **23** correctly.

There were only three questions which seemed to cause some degree of difficulty. These are considered below.

## **Specific questions**

### **Question 6**

This required the calculation of the depreciation charge for machinery for a year. The question indicated that depreciation is charged on a time basis (month by month). Thus the business held \$200 000 of machinery at cost for the whole period at 20% depreciation = \$40 000. Additional machinery of \$50 000 was held for nine months at 20% = \$7500 and finally machinery of \$10 000 was held for three months at 20% = \$500, making the total charge for the year of \$48 000. The question could be approached by breaking the account down into the various time periods.

### **Question 11**

A statement of financial position does not, strictly speaking, contain debits and credits, but has debit and credit balances. The actual statement is simply a list of those balances grouped in a particular order. By the same token, the income statement is an account with debit and credit sides, although this is sometimes lost as it is written in columnar form with additions and deductions. Following these principles, closing inventory is a credit in the income statement and a loss for the year is debited in the capital account and credited in the income statement. These three elements alone were enough to arrive at the correct key of **A**.

### **Question 18**

This question was also not well attempted. It concerned the impact on a business of an issue of shares. It required candidates to understand that share capital will increase by the par value of the shares issued and the additional cash received will improve the business liquidity.

### **Overall comment**

The results for this paper were extremely encouraging. It indicated that well prepared candidates spent time on both financial and cost accounting.

# ACCOUNTING

**Paper 9706/13**  
**Multiple Choice**

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

## General comments

Overall candidates performed reasonably well on this paper. 70% of candidates achieved a score of 15 or above out of 30, with some candidates achieving full marks for the paper. Many questions proved easy to many candidates. 70% or more of candidates answered questions **3, 4, 5, 10, 15, 16, 18, 19, 20, 22** correctly. There were only two questions which seemed to prove slightly challenging for candidates and they are reviewed below.

## Specific questions

### **Question 21**

Though the question appeared straightforward, it required some thought. As the inventory turnover had decreased statement 2 'inventory of goods has increased' was self-evident. The challenge then was to determine which statement in respect of profit margin was correct. The logic behind the answer is that an increase in closing inventory would lead to an increase in profit margin on a constant sales level. This then meant statement 4 was also correct, thus providing the key.

### **Question 26**

This was a judgement/knowledge question. However, with costing it is usual to assume that depreciation is a fixed cost however it is calculated. The fact that it goes down from year to year because it is calculated using the reducing balance method does not matter.

## **Overall comment**

This paper was well attempted by candidates.

# ACCOUNTING

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Paper 9706/21  
Structured Questions

## Key Messages

- Candidates should take care to read the questions carefully and to answer the question that has been asked precisely.
- Candidates should ensure that they develop points sufficiently in written questions.
- When answering computational questions, candidates should always show workings as they will be rewarded for this and it makes the task of answering the question much more straightforward.

## General Comments

Centres and candidates are reminded that questions may be set on any part of the syllabus. The question on costing was not as well answered as those on financial accounting.

Candidates should be reminded that it is very important to show workings wherever necessary as an incorrect figure with no supporting workings will not be rewarded whereas if workings are shown, some marks may be awarded even for an incorrect answer.

## Comments on Specific Questions

### Question 1

- (a) Well prepared candidates were able to gain good marks on the preparation of the income statement. Calculation of the trading section of the income statement involved preparation of sales and purchase ledger control accounts. This was appreciated by better students, though many omitted to make any adjustment for the \$2600 goods for own use. Less well prepared students appeared to have little knowledge of the structure of an income statement.
- (b) The second task required candidates to prepare the statement of financial position. This was less well done by the majority of candidates. Few candidates were able to correctly calculate the correct opening capital balance or the correct net book value of the motor vehicles.
- (c) The final task in **Question 1** required candidates to state one advantage and one disadvantage of a five year loan and a bank overdraft. This was a common generic question, but most answers were superficial and lacked the necessary depth to be rewarded.

### Question 2

- (a) Candidates were expected to give an appropriate explanation of what is meant by mark-up. Vague answers were not fully rewarded.
- (b) Preparation of the trading section of the income statement relied on the ability to interpret the rate of inventory turnover. Candidates must acquire a good understanding of accounting ratios rather than simply memorising them.

- (c) A large number of candidates were not able to use the formula for calculating margin. When asked to state a formula, a description is not sufficient. A common answer was 'gross profit expressed as a percentage of selling price'.
- (d) (i) Candidates were expected to offer a correct explanation of non-current asset turnover measures. Vague responses were not fully rewarded.  
(ii) Most candidates were able to state the formula for non-current asset turnover and subsequently calculate the ratio.
- (e) Whilst a number of candidates gave adequate explanations of why a provision for doubtful debts may be necessary, sufficient depth was required to gain the full reward.
- (f) When asked to prepare an account, candidates must always remember to bring down the closing balance on that account.
- (g) Most well prepared candidates were able to correctly state how the provision for doubtful debts is shown in both the income statement and the statement of financial position.

### Question 3

- (a) (b) Well prepared candidates were generally able to gain full marks for the calculation of the contribution of the two products.
- (c) (d) Having calculated the contribution, most candidates were then able to calculate the break-even point in units and in revenue.
- (e) The calculation of the margin of safety was less well done. Although this is a common question, a number of candidates were unable to complete it.
- (f) (g) In calculating the revised profit for the company under both proposals, those candidates who recognised that it was a question of adjusting the contribution under each proposal and deducting the revised fixed costs, were generally well rewarded.
- (h) In advising the directors which proposal should be accepted, responses were rewarded based on the candidates' own figures. As a result, those candidates who attempted the question were generally able to pick up marks.

# ACCOUNTING

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**Paper 9706/22**  
**Structured Questions**

## Key Messages

Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings.

In written questions, candidates should make sure that they provide sufficient development to their answers. One or two word answers will seldom suffice.

## General Comments

Centres and candidates are once again reminded that questions may be set on any part of the syllabus. Generally, cost accounting questions are not answered as well as those on financial accounting and candidates must be aware that there will always be a cost accounting question in the examination.

Candidates should be reminded that it is very important to show workings wherever necessary as an incorrect figure with no supporting workings will not be rewarded whereas if workings are shown, some marks may be awarded even for an incorrect answer.

Candidates should be made aware that there is no better preparation for the examination than answering previous examination questions and appropriate textbook exercises.

## Comments on Specific Questions

### **Question 1**

The question required candidates to calculate the opening capital of a business from data provided, to calculate sales revenue, purchases, closing inventory and the cash payment made for motor expenses, followed by preparation of the trader's income statement.

- (a) Whilst many candidates were able to correctly calculate the opening capital, the presentation of most answers was unsatisfactory. Many candidates correctly listed the assets and liabilities, but then omitted the closing balance of the bank account.
- (b) (i) Calculation of the sales revenue was generally well done, though some candidates did not realise that the sales revenue for the year was simply the total of credit sales and cash sales and attempted to prepare a sales ledger control account.  
(ii) Calculation of the purchases for the year did require preparation of a control account and most candidates did this correctly.
- (c) Calculation of the closing inventory proved challenging for the less well-prepared candidates. Many did not realise that having been provided with the gross profit margin, preparation of the trading section of the income statement would leave only the closing inventory as the balancing figure.
- (d) This task specifically required the preparation of a cash account in order to identify the cash payment made for motor expenses. Despite the specific requirement, some candidates presented a calculation rather than a cash account and were not awarded marks. Only a few candidates were able to produce a totally correct account.



- (e) Preparation of the income statement was generally well done by most candidates. Five marks were available for the trading part of the income statement and credit for candidates' own figures from previous parts was allowed. Few candidates were able to correctly calculate the charge for depreciation of motor vehicles and the loss on sale of the motor vehicle disposal, but the remaining items of expenditure generally proved challenging. Presentation of the income statement was not always as good as expected and some candidates did not correctly label gross profit and loss for the year.

### Question 2

The second question tested candidates' knowledge of partnership accounts on the introduction of a new partner. Whilst much of the question was quite well done, presentation was often not satisfactory.

- (a) The first part of the question required candidates to prepare the partners' capital accounts at the time of the introduction of the new partner. Most candidates were rewarded with good marks, though a number of candidates were not awarded two marks as they omitted to bring down the closing balances on the accounts. Some candidates did not appear to know the difference between capital accounts and current accounts and incorrectly included share of profit, drawings and interest on capital and drawings. The most common error was to enter Kim's opening capital as \$600 000, the opening capital from the previous year. The majority of candidates dealt correctly with the goodwill.
- (b) Preparation of the opening statement of financial position of the partnership was well done by most candidates, though again, some candidates incorrectly included the same extraneous amounts referred to above. The most common error was not to enter the correct cash and cash equivalents balance and not accounting for the fact that the initial overdraft of \$16 000 was amended into a debit balance of \$144 000 by the introduction of cash by Chan.
- (c) Asked to state three advantages to Kim of forming a partnership, the vast majority of candidates were able to provide three valid advantages and were rewarded with three marks.
- (d) The next part of this question required candidates to explain why the partnership may wish to increase the provision for doubtful debts rate from 2% to 5%. This was not answered satisfactorily, with the majority of candidates choosing to offer generic comments around the prudence and matching concepts. Very few candidates related their answer to the scenario which was what was required.
- (e) Very few candidates were able to calculate the correct difference in the two provisions, principally as a result of not realising that Kim's trade receivables of \$343 000 were after deducting a 2% provision for doubtful debts. The gross trade receivables were therefore \$350 000.
- (f) Most candidates were aware of the effect of the increase in provision for doubtful debts on both the profit for the year and on current assets.

### Question 3

The third question concentrated on allocation, apportionment and absorption and whilst most were able to gain reasonable marks for the first part of the question requiring the cost apportionment, the remaining parts of the question caused problems to many candidates.

- (a) Most candidates were able to gain good marks by correctly allocating the forecast overheads, though some had greater difficulty in reapportioning the service centres' overhead costs. A number of candidates used an incorrect basis for allocating the light and heat cost, using kilowatt hours rather than floor area. It is equally important for candidates to be aware of the process of reapportioning service centre costs.
- (b) As has often been the case in the past, whilst the majority of candidates were able to calculate an appropriate absorption rate for each production department, marks were frequently not awarded where candidates did not stipulate the basis on which they would be applied – i.e. machine hours or direct labour hours.

- (c) Over one half of candidates calculated correct over or under absorption based on their own figures and were rewarded accordingly. However, many candidates used the total overheads calculated in part (a) rather than the actual hours multiplied by the overhead absorption rate.
- (d) Responses to the part requiring candidates to state two reasons for the under absorption or over absorption of overheads calculated in part (c) was not satisfactory. The question clearly required specific responses relating to Kapoor Limited, but the majority of candidates offered very generic answers that were not rewarded.
- (e) Many candidates were unable to explain why estimated figures are used to calculate overhead absorption rates. It is very important that candidates understand the reasons for doing something, not simply how to do it.
- (f) The calculation of the full invoice value was not undertaken satisfactorily by the vast majority of candidates. A number of candidates were able to correctly calculate the direct material and direct labour elements of the invoice, but only a handful were able to correctly calculate the overhead to apply.

# ACCOUNTING

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**Paper 9706/23**  
**Structured Questions**

## General comments

Overall performance on this paper was satisfactory and there were some excellent scripts.

Candidates are advised to read each question carefully before starting their answers.

## Comments on specific questions

### *Section A*

#### **Question 1**

- (a) This part was well answered with a significant number of candidates scoring full marks. The most common errors were the omission of the carriage inwards and the incorrect treatment of the manufacturing wages. A few candidates did not label prime cost and production cost of finished goods and were lost marks accordingly.
- (b) Again, this part was well answered with most candidates scoring high marks. The most common errors were the miscalculation of the provision for doubtful debts and the incorrect placement of the carriage inwards in cost of sales.
- (c) This was less well answered than (a) and (b). Well prepared candidates were able to score full marks but many merely gave an example such as obsolescence and did not provide the required explanation.

#### **Question 2**

- (a) Most candidates provided the correct formula and calculation for the trade receivables turnover, the trade payables turnover and the current ratio. Performance was not so good for the inventory turnover and the non-current asset turnover. Some candidates incorrectly used sales instead of cost of sales when calculating the inventory turnover. A common error in the calculation of the non-current asset turnover was the reversal of the formula.
- (b) Performance on this part was mixed. There were some very good answers with candidates demonstrating a sound understanding of the topic but also a misinterpretation of the requirement to evaluate Alberto's performance was shown by a few candidates who made calculations.
- (c) Candidates generally scored better marks for the partnership than the limited company. Some candidates showed a misinterpretation of the limited liability concept and few were able to provide satisfactory disadvantages of forming the private limited company.

#### **Question 3**

- (a) This was well answered with nearly all of the candidates making the correct calculation.
- (b) This was also well answered although some candidates lost marks for not labelling contribution and/or profit.
- (c) Many candidates made the correct calculation but a significant number used the actual production rather than the budgeted production.

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- (d) This was less well answered. Many candidates were unable to calculate the production cost and many others were unable to deal with the under absorption.
- (e) Most candidates produced an acceptable reconciliation statement.
- (f) Most candidates demonstrated some understanding but the quality of the explanation was varied. Many candidates did not mention the cost of the inventory and just discussed the two methods generally.

# ACCOUNTING

Paper 9706/31  
Multiple Choice

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

## General comments

43% of the total candidates achieved a score of 15 or more correct answers. The median mark was 13 and mean mark 15. Most of the questions were well attempted, with both **Questions 4 and 30** answered correctly by 75% or more of candidates. There were some questions which proved challenging to candidates. They have been reviewed below.

## Specific questions

### Question 7

This was a knowledge based question on the uses of the share premium account. These are clearly set out in the Companies act. The answer was **D**: to write off preliminary expenses.

### Question 21

This required knowledge of IAS36, impairment of non-current assets. The principle is that the carrying cost of the assets is compared with the **higher** of the fair value of the asset and the asset's value in use. If the carrying value is higher than the figure it is compared to then it is required to be impaired; the difference is written off in the income statement. In this case the carrying value was \$114 000. The value in use was \$105 000 and the fair value was (\$115 000 – 3000 selling costs = \$112 000). The amount of the impairment was \$114 000 – 112 000 = \$2000.

**Question 22**

This required knowledge of IAS10. The question required candidates to classify the events as adjusting event or non-adjusting event. In this instance both the items listed were non-adjusting events, hence the key **D**.

**Question 24**

Over and under absorption of factory overheads proves challenging, both in identifying their causes from written statements as in this case or in calculating the amount. Of the four statements given the one which will give rise to an over absorption is when actual production is greater than budgeted production.

**Overall comment**

The candidates clearly put in a lot of effort to ensure most aspects of the syllabus were covered. The only exception seems to be knowledge of IAS topics.

# ACCOUNTING

**Paper 9706/32**  
**Multiple Choice**

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

## General comments

Performance of candidates was very good on this paper, with 77% of candidates achieving 15 or more correct answers. A high number of questions appeared easy to candidates; **1, 3, 4, 5, 10, 12, 13, 19, 23, 25, 27, 28** were answered correctly by 70% or more of candidates. Only two questions proved challenging and they have been discussed below.

## Specific questions

### **Question 22**

This required knowledge of IAS10. The principle is to determine which of the items listed is either an adjusting or a non-adjusting event. In this instance both the items listed were non-adjusting events, hence the key **D**.

### **Question 24**

Candidates find questions on over and under absorption of factory overheads challenging. Of the four statements given the one which will give rise to an over absorption is when actual production is greater than budgeted production.

## **Overall comment**

Candidates were clearly well prepared. However, candidates need to focus more on their knowledge of IAS.

# ACCOUNTING

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**Paper 9706/33**  
**Multiple Choice**

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

## **General comments**

Candidates performed well on this paper with 75% achieving a score of 15 or more. The median mark for the paper was 19, with the mean slightly lower. **Questions 1, 7, 8, 9, 13, 15, 16, 17, 20, 23, 24, 25 and 30** proved easy to candidates with 70% or more answering correctly. There were though some questions which proved challenging and they are reviewed below.

## **Specific questions**

### **Question 2**

This question asked candidates to consider what the equivalent of dividends paid by a limited company is for a sole trader. The answer was **C**, owner's drawings on the principle that the owner and the business are separate entities. The business retains profit; the owner takes drawings on account of the profit earned by the business. A limited company retains the profit and the shareholders receive dividends.



### Question 5

This was a challenging question, requiring candidates to think backwards. The presumption was that the total of the balances of the sales ledger had been used to prepare the financial statements. The transaction omitted from the books would not have affected either the control account or the total of trade receivables. The provision for doubtful receivables would have been deducted from the total of the balances. Likewise the discount allowed would have been entered in the personal account of the customer. Thus the control account balance of \$128 000 should have been reduced by \$2500 and \$600 to arrive at the figure on the statement of financial position (\$124 900).

### Question 10

This required candidates to think about the sources from which a company might issue bonus shares. A total of \$80 000 shares were to be issued. If the minimum amount was to come from the retained earnings, then the maximum would come from the share premium of \$60 000, leaving \$20 000 to be taken from retained earnings.

### Question 21

This required knowledge of IAS23. The IAS states that interest can be capitalised during the time the asset is under construction. Whilst the loan was taken out some time before that the interest cannot be capitalised, as the planning permission may fail, or the company may decide to do something else with the funds. The period of construction was seven months (March to September). Thus  $7/12$  of \$6000 = \$3500 could be capitalised.

### Overall comment

Once again the results for this paper were excellent. For the revised A level syllabus candidates will be expected to think more about what they have prepared, rather than the straightforward process of preparing financial statement.

# ACCOUNTING

Paper 9706/41

Problem Solving (Supplementary Topics)

## General Comments

The majority of candidates were able to access the paper and attempt the majority of the question paper. There were no apparent timing issues. Many candidates produced reasonable answers to each question with some excellent well prepared and logically thought out scripts. **Question 3** on investment appraisal was the best answered question with some excellent answers showing correct calculations and all workings. On **Question 2** many candidates appeared unsure of which approach to take to calculate net assets in part (a), which they then used in part (b). Most candidates seemed familiar with the IAS format required in **Question 1**, although few were able to provide the non-current asset note.

It cannot be stressed enough how important it is to show all workings even for straight forward calculations. Candidates seemed to use the question paper as a working document, thereby often not providing full workings to support their final answer in the answer booklet. Despite clear instructions to copy the tables produced on the question paper into their answer booklet some candidates used the question paper to provide a complete answer to **Question 3** parts (a) and (b)(i). If workings are completed on another page these must be included within the booklet.

## Comments on Specific Questions

### Question 1

(a) (i) This question was generally answered well despite many candidates ignoring the instruction on the question paper to round their answers. Although the budgeted revenue was properly calculated for the most part, there were a fair number of candidates who were unable to calculate the budgeted gross profit or understand what the instructions meant. Some confused this with cost of sales and showed a gross profit of 58% and cost of sales of 42%, or alternatively showed gross profit as 42% of the original revenue, or showed the original gross profit increased by 42%.

Other common errors were adding in depreciation to the administrative expenses. Occasionally the candidate added in the \$4000 from the last income statement charge. If other expenses had been incorrectly calculated some candidates were left with a loss before tax. However, they then still went on to calculate a tax charge.

Candidates were not rewarded if they did not label key totals and subtotals in the income statement (operating profit, profit before tax etc.) and used abbreviations for cost of goods sold and gross profit. Occasionally there was a 'net' in a profit label.

(ii) The vast majority of candidates either omitted dividends entirely here or included only the ordinary proposed dividends. Some candidates showed the opening balance as \$24 000 from 1 October 2013. The layout and format confused a number of candidates – a few tried to show the whole Statement of Changes in Equity, or omitted to give an indication of what was an opening and closing balance.

(b) (i) Candidates were required to know how to present a full non-current asset note. Most showed closing cost, accumulated depreciation and closing net book value. Some candidates showed the lines for additions and the depreciation charge. The opening and closing balances had to be correctly labelled. Often candidates omitted the previous year's net book value.

(ii) Marks for this were variable – although some candidates did extremely well here both in terms of layout and figures. Candidates should ensure they show workings. The presentation of non-current assets was variable (often the investment and goodwill were omitted and labels for 'tangible' and

'intangible' left out). Most candidates did seem to understand and use the IAS terminology and format. Strong responses showed the 'Total Asset' figure. Responses should avoid using the old style format and terminology. The amounts for taxation seemed often not to be the candidate's own figure from part (a) but included the \$4000 for the last statement, and Retained Earnings often did not match up to the candidate's answer in part (a)(ii). A number of candidates did not identify that the trade receivables and payables figures needed to be calculated from the income statement amounts for sales and purchases – some merely repeated the amounts from the 30 September 2014 statement. A very small minority realised that cash needed to be the balancing figure – most candidates used the \$61 000 from the original statement.

## Question 2

- (a) Most candidates attempted this question by calculating the revised values of the assets and liabilities, although a number did provide a revised balance sheet but did not make it clear what their final net assets figure was. A very small number of candidates tried to adjust the original value of net assets for the change in assets and liabilities. Common errors were in the calculation of the property value – it seemed that many the responses included depreciation on the land. Few candidates stated a correct net book value for the equipment. Most identified the addition of \$16 000, however, incorrectly calculated depreciation on this and the existing equipment pro rata to the number of months. Some candidates confused current assets, often taking this to be the total assets figure of \$153 200. The long-term loan was often omitted.
- (b) Candidates needed to see the link between the calculations from part (a) and use this to determine profit. Some candidates focused on an attempt to recreate the partners' current accounts. Many did have the correct approach but used incorrect opening net assets (frequently \$152 300) but mistakenly added in interest on capital.

Approaches varied, for example candidates used a T account, by putting the opening values of assets on the debit side, the closing values of assets on the credit side, and visa versa for liabilities.

- (c) This part of the question was done well. The injection of capital by Zola was correctly treated as was goodwill, either showing entries on both sides of the account or by netting off. Only a small minority of candidates correctly calculated the revaluation – with common errors in their accounting for depreciation over the first six months. A few candidates did confuse what should be contained in the capital accounts, sometimes including items such as interest on capital. Only approximately half of candidates brought balances down to achieve that final mark.
- (d) Answers were confused in this question especially with regards to the calculation of the share of profits and the interest of capital being split between the different periods of the year. Candidates tended to work out the shares of profit without deducting interest on capital first. Many candidates did not identify that the whole year needed to be accounted for, therefore frequently the drawings of Andy and Nicole for the first six months and their share of profits and interest on capital for that period were omitted. Other common errors were to include a full year's interest on capital on the capital account balances calculated in part (c), and not deducting interest on capital from the profit available for sharing
- (e) Candidates should avoid making comments that are just taken from the question paper. Responses were expected to state the amount of drawings of each partner with conclusions. Some compared the previous years' drawings with only six months of drawings from the current year. Quite a number of candidates thought that the amount of drawings had an impact on the profit made.

## Question 3

- (a) Many candidates achieved full marks here. Rarely candidates lost marks for minor errors or, for example, for failing to label the final net present value figure. A few candidates omitted the outflow of \$20 000 in year zero. A relatively small number of candidates had an incorrect net cash flow – mainly this was because they added or deducted an extra \$4000 in respect of depreciation.

- (b) (i)** This was also very well done – the vast majority of candidates correctly applied to the relevant discount factors to their own net cash flows.
- (ii)** Most candidates were able to calculate the internal rate of return (IRR) and apply this to their own figures correctly, even if they had mistakenly calculated two positive values for the net present values. A few candidates did not read the instructions and did not provide the answer to 2 decimal places as required, or failed to provide a percentage sign.
- (c)** The accounting rate of return (ARR) was very well done. In a few situations the candidate had supplied no workings to identify where the average profit figure was derived from. Common errors related mainly to the calculation of depreciation and what was included in the net cash flow. The average investment was also often shown to be \$4000.
- (d)** Candidates reached appropriate conclusions here consistent with their own figures. Appropriate development points supporting the conclusion were provided by most, although many did not draw out the advantages of the net present value.
- (e) (f)** These provided varied answers. The most common answers provided by candidates related to ordinary shares, their voting rights and the inconsistency of dividend return. Ideas about preference shares were generally correct, although many candidates failed to mention that only cumulative preference shares will be entitled to any arrears of dividends. Candidates generally knew enough about ordinary shares and preference shares, but could not always identify which features would be an advantage or disadvantage from a particular perspective. Some candidates looked for advantages and disadvantages from the viewpoint of existing shareholders (although there are not any) rather than new ones.

# ACCOUNTING

Paper 9706/42

Problem Solving (Supplementary Topics)

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# ACCOUNTING

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Paper 9706/43

Problem Solving (Supplementary Topics)

## General comments

Overall performance of the candidates was satisfactory on the paper.

Improvement was noted throughout the paper and this was particularly noticeable in **Question 3** which provided many excellent answers.

## Comments on specific questions

### *Section A*

#### Question 1

- (a) Most candidates prepared a reasonable extract. Some candidates did not read the question and produced columns other than the retained earnings column. Some candidates also lost marks for not labelling the entries.
- (b) The note was not prepared well. Many candidates fully omitted the total column and very few entered the opening net book values.
- (c) This was well answered by nearly all of the candidates. A few candidates used the old format and as a consequence did not get the total assets mark.
- (d) Many candidates did not answer the question for part (i) as they stated how the error could be corrected rather than how it had affected the financial statements. Part (ii) was not answered appropriately with a majority of candidates discussing IAS 10 (events after the reporting period).

#### Question 2

- (a) The capital accounts were very well prepared with many candidates achieving full marks. The most common error was not bringing down the closing balances for Abdul and Barry.
- (b) The statement of financial position again was very well prepared with many candidates obtaining full marks. The most common error was being unable to deal correctly with the \$60 000 payment to Chandra.
- (c) There were some very good written answers. Less well prepared candidates gained few marks as they were unable to explain that the convertible loan stock could be converted to shares and consequently unable to highlight the required difference to the debenture.
- (d) Though most candidates were able to calculate the ratios correctly, they often did not present them appropriately. For example, the current ratio must be expressed as a value : 1 and the earnings per share must be expressed as a monetary value. Some candidates calculated the interest cover rather than the income gearing ratio..
- (e) There were some very good responses but a significant number of candidates stated that the ratio was higher or lower without further explanation. It is imperative when answering such a question that the candidate explains whether the ratio is better or worse. Some candidates advised Chandra basing their advice on ratios other than those asked for in the question (return on capital employed, gearing and income gearing).



**Question 3**

- (a) Nearly all candidates scored full marks for this section.
- (b) Most candidates scored full marks for the Process 1 account. The Process 2 account was also generally well prepared. The most common error was the miscalculation of the number of units of scrap as 10% of the total cost rather than 10% of the units.
- (c) This part was very well answered with no common errors.
- (d) Most candidates were able to calculate a revised cost per unit.. The advice given was also generally correct.
- (e) The work-in-progress was generally calculated correctly. The most common error was the incorrect inclusion of the fixed overhead.
- (f) This part was the least well answered of the question with many candidates just providing a list of all of the elements of cost.