

# ACCOUNTING

**Paper 9706/11**  
**Multiple Choice**

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

## General comments

Overall the paper was well answered by candidates and provided evidence of differentiation between the well-prepared candidates and those who were less well prepared. The mean mark was 15.92 and the standard deviation was 5.58. Candidates experienced few difficulties with items 4,7,13,17,21,23 and 24 which were generally well answered.

## Comments on specific items

### Item 1

There was evidence that candidates did not read the question carefully. The question stated that the owner has charged \$750 against his profits, but the total rent for the year is \$1000, therefore the correct response would have been 'C', ie that his profits are overstated by \$250.

### Item 5

Although the majority of candidates identified the correct answer in this situation there was evidence that some had not taken into account the cash discount of 2% which was allowed to credit customers.

### Item 19

This proved to be slightly more difficult than anticipated. The question clearly stated that the mortgage was due to be repaid in 2010, the next financial year, which therefore means that it should not be included in a calculation of non current liabilities.

**Item 26**

Questions on this topic are quite common. While most candidates were able to identify the correct response, less able candidate omitted to take account of the contribution of product Y to the fixed costs.

**Item 28**

The key here was in understanding the difference between a total cost approach to stock valuation and a marginal costing approach. Weaker candidates stated that there would be no change when in fact the adoption of a marginal costing approach would in fact reduce closing stock and hence reduce operating profit.

# ACCOUNTING

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

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

## **General comments**

Overall the paper was well answered by candidates and provided evidence of differentiation between the well-prepared candidates and those who were less well prepared. The mean mark was 15.44 and the standard deviation was 5.90. It was pleasing to note that over 30% of candidates scored more than 18 marks in this paper. Candidates experienced few difficulties with items 4,7,21,23 and 24. These items covered a range of topics including stock valuation, calculation of profit and commonly used accounting ratios which were generally well answered.

## **Comments on specific items**

### **Item 1**

There was evidence that candidates did not read the question carefully. The question stated that the owner has charged \$750 against his profits, but the total rent for the year is \$1000, therefore the correct response would have been 'C', ie that his profits are overstated by \$250.

### **Item 5**

Although the majority of candidates identified the correct answer in this situation there was evidence that some had not taken into account the cash discount of 2% which was allowed to credit customers.

**Item 19**

This proved to be slightly more difficult than anticipated. The question clearly stated that the mortgage was due to be repaid in 2010, the next financial year, which therefore means that it should not be included in a calculation of non current liabilities.

**Item 26**

Questions on this topic are quite common. While most candidates were able to identify the correct response, less able candidate omitted to take account of the contribution of product Y to the fixed costs.

**Item 28**

The key here was in understanding the difference between a total cost approach to stock valuation and a marginal costing approach. Weaker candidates stated that there would be no change when in fact the adoption of a marginal costing approach would in fact reduce closing stock and hence reduce operating profit.



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

## **General comments**

Overall the paper was well answered by candidates and provided evidence of differentiation between the well-prepared candidates and those who were less well prepared. The mean mark was 19.25 and the standard deviation was 5.43. Candidates experienced few difficulties with items **3, 5, 6, 11, 15, 16, 20, 22, 23,** and **29**, which were generally well answered.

## **Comments on specific items**

### **Item 4**

Although the majority of candidates identified the correct answer in this situation there was evidence that some had not taken into account the cash discount of 2% which was allowed to credit customers.

### **Item 18**

This proved to be slightly more difficult than anticipated. The question clearly stated that the mortgage was due to be repaid in 2010, the next financial year, which therefore means that it should not be included in a calculation of non current liabilities.

**Item 25**

Questions on this topic are quite common. While most candidates were able to identify the correct response, less able candidate omitted to take account of the contribution of product Y to the fixed costs.

**Item 27**

The key here was in understanding the difference between a total cost approach to stock valuation and a marginal costing approach. Weaker candidates stated that there would be no change when in fact the adoption of a marginal costing approach would in fact reduce closing stock and hence reduce operating profit.

**Item 30**

There was evidence that candidates did not read the question carefully. The question stated that the owner has charged \$750 against his profits, but the total rent for the year is \$1000, therefore the correct response would have been 'C', ie that his profits are overstated by \$250.



# ACCOUNTING

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**Paper 9706/21**  
**Structured Questions**

## General comments

This appeared to be a fair paper which differentiated clearly between the well-prepared candidates at one end of the scale and those who had done little or no work at the other. There were relatively few ill-prepared candidates.

## Comments on specific questions

### Question 1

Few, if any, candidates attained full marks, mainly through a lack of understanding of double-entry book-keeping.

- (a), (b) A few good marks here, but very rarely were these sections completely correct. The candidates were asked to calculate total sales and total purchases and as a result various methods were attempted, some by using T-accounts, others by compiling lists of figures in different formats. In (a), the cash balance was regularly omitted and in both (a) and (b) discounts were ignored.
- (c) Reasonable marks here, though some candidates amended the sales figure so that it differed from **section (a)**. Fewer than half of the candidates used the information that selling price was based on cost plus 25%, which gave the Gross Profit as 20% of sales. The expenses were not always fully adjusted.
- (d) Depreciation, though usually correctly calculated in the Income Statement, was often then forgotten in the Balance Sheet. The Bank figure of \$31 332 was occasionally calculated correctly but more often used as a balancing figure. The Loan was frequently entered as a Current Liability.

### Question 2

Very few good solutions were given. The answers given in part (d), in particular, suggested that many candidates were not familiar with this type of organisation.

- (a) Most candidates had some idea of what was expected here, but despite having been asked to prepare the account for the Ordinary members, many included Life members. And the opening and closing balances were frequently reversed.
- (b) The Purchases and Expenses figures were more often than not incorrectly adjusted. About one-third of the candidates did not include the expenses, their final figure being the Gross Profit.
- (c) The Life subscriptions figure was very rarely correct and where expenses had been omitted in (b) they were usually entered here instead, gaining no marks.
- (d) About half of the candidates' papers which were seen by the Principal Examiner appeared to have little idea of the workings of a club. Debtors were often mentioned here – few clubs have Debtors as such and in any case paying them off more slowly would not help to minimise the deficit in future years. And the issue of Shares would be an unlikely solution.

### Question 3

Well done by most candidates with the exception of the profit/volume chart which was correctly attempted by only a very small minority.

- (a) (i) This was an easy question for most candidates.
  - (ii) Many candidates correctly calculated the profit for the year, but omitted to state the unit contribution, thus losing 2 marks.
  - (iii) Once more candidates correctly calculated the margin of safety but did not show it as a percentage of sales.
- (b) Few candidates appeared to know what a Profit/Volume graph is, and instead most drew up a Break-even chart, which gained no marks.
- (c) Most candidates began this section well, but only as far as Total contribution for each product. Up to this point they gained 7 out of a possible 10 marks. Fixed costs for the **factory** were set at \$240,000 but a majority of candidates deducted this from **each** production line.
- (d) Usually correctly completed in line with the candidates' answers to (c).



# ACCOUNTING

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<p><b>Paper 9706/22</b> <b>Structured Questions</b></p>
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## General comments

Overall the paper was well answered by candidates and provided evidence of differentiation between the well-prepared candidates and those who were less well prepared.

## Comments on specific questions

### Question 1

Few, if any, candidates attained full marks, mainly through a lack of understanding of double-entry book-keeping.

- (a), (b) A few good marks here, but very rarely were these sections completely correct. The candidates were asked to calculate total sales and total purchases and as a result various methods were attempted, some by using ledger accounts, others by compiling lists of figures in different formats. In (a), the cash balance was regularly omitted and in both (a) and (b) discounts were ignored.
- (c) Reasonable marks here, though some candidates amended the sales figure so that it differed from **section (a)**. Fewer than half of the candidates used the information that selling price was based on cost plus 25%, which gave the gross profit as 20% of sales. The expenses were not always fully adjusted.
- (d) Depreciation, though usually correctly calculated in the income statement, was often then forgotten in the balance sheet. The bank figure of \$31 332 was occasionally calculated correctly but more often used as a balancing figure. The loan was frequently entered as a current liability.

### Question 2

Very few good solutions were given. The answers given in part (d), in particular, suggested that many candidates were not familiar with this type of organisation.

- (a) Most candidates had some idea of what was expected here, but despite having been asked to prepare the account for the ordinary members, many included life members. And the opening and closing balances were frequently reversed.
- (b) The purchases and expenses figures were more often than not incorrectly adjusted. About one-third of the candidates did not include the expenses, their final figure being the gross profit.
- (c) The life subscriptions figure was very rarely correct and where expenses had been omitted in (b) they were usually entered here instead, gaining no marks.
- (d) Candidate responses demonstrated that they have little idea of the workings of a club. Debtors were often mentioned here – few clubs have debtors as such and in any case paying them off more slowly would not help to minimise the deficit in future years. And the issue of shares would be an unlikely solution.

### Question 3

Well done by most candidates with the exception of the profit/volume chart which was correctly attempted by only a very small minority.

- (a) (i) This was an easy question for most candidates.
  - (ii) Many candidates correctly calculated the profit for the year, but omitted to state the unit contribution, thus losing 2 marks.
  - (iii) Once more candidates correctly calculated the margin of safety but did not show it as a percentage of sales.
- (b) Few candidates appeared to know what a Profit/Volume graph is, and instead most drew up a break-even chart, which gained no marks.
- (c) Most candidates began this section well, but only as far as total contribution for each product. Up to this point they gained 7 out of a possible 10 marks. Fixed costs for the **factory** were set at \$240,000 but a majority of candidates deducted this from **each** production line.
- (d) Usually correctly completed in line with the candidates' answers to (c).

# ACCOUNTING

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Paper 9706/23

Structured Questions

## General comments

Generally reasonably good marks with all three questions of equal difficulty.

## Comments on specific questions

### Question 1A

Generally fairly well attempted, though very few candidates attained full marks.

- (a) More than half of the candidates failed to split the expenses into their component parts, and of those who did, very few entered all 3 parts correctly. The interest on capital was usually correct, though a small minority failed to increase James's share in the second period.
- (b) The current accounts were well presented by most candidates, though a very small number wrongly interpreted "columnar form" to mean a vertical list of figures, some added, some deducted. To gain marks, accounts had to be drawn up.
- (c) Most candidates gained full marks here.

### Question 1B

Most candidates seemed to have a good grasp of ratios.

### Question 2

Some excellent answers for parts (a), (b) and (f) – not so well done for the remainder.

- (a) Many candidates gained full marks. Very few took the easy route of multiplying 300 units by \$20 and instead completed a FIFO calculation for the period.
- (b) Almost all candidates gained full marks, as the closing stock was an own figure from (a) and the gross profit was also a consequential own figure.
- (c) Most candidates attained at least half marks here, though the expression "lower of cost and net realisable value" had obviously been learnt by rote in many cases and appeared in a rather garbled form such as "lower cost of net residual value".
- (d) This was not, apparently, an easy calculation for most candidates, though almost all gained at least 2 marks.
- (e) The depreciation calculation caused a problem for most candidates as they tended to ignore the fact that it was applied for only 2 months. Again, most did gain at least 2 marks.
- (f) Good result here for candidates who attempted this by drawing up a Total Trade Receivables (debtors) account, though entries were not always on the correct side.

**Question 3**

For the most part, very well answered.

- (a) Nearly all candidates correctly calculated the relevant costs, though a few calculated them for the factory rather than for the departments.
- (b) The vast majority calculated and drew up this section correctly.
- (c) Again, almost all candidates approached this calculation correctly and gained full marks.
- (d) Good results obtained here.
- (e) Most candidates gave methods for the allocation or absorption of departmental overheads.

# ACCOUNTING

**Paper 9706/31**  
**Multiple Choice (Supplement)**

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

## General comments

Overall the paper was well answered by candidates and provided evidence of differentiation between the well-prepared candidates and those who were less well prepared. The mean mark was 15.98 and the standard deviation was 5.12. Marks in excess of 20 were achieved by more than 20% of candidates. This figure has scope for improvement by candidates reading the questions more carefully and understanding fully what is required of them.

Candidates experienced few difficulties with **items 2, 7, 12, 13, 20, 23, and 29** which were generally well answered.

However, several questions did appear to prove more difficulty.

## Comments on specific items

### **Item 6**

Many candidates did not appear to know that the premium on a new issue of shares can be set against the shares being repaid, to reduce the need to use distributable reserves. This would result in the amount of distributable reserves being reduced by \$90 000.

**Item 10**

The key in this item is understanding that when valuing Inventory all costs of getting inventory to its present location and condition should be included, so long as these costs can be recovered. Many candidates did not include the conversion costs in their calculation of the inventory, and some did not include the carriage inwards.

**Item 11**

This item proved difficult for all but the most able candidates. The main difficulty appeared to be a lack of knowledge regarding the correct definition of cash and (particularly) cash equivalents. Cash equivalents include cash deposits with less than six months to maturity. This would result in the correct figure of \$16 000.

**Item 17**

This item proved to be demanding with two separate aspects of capital structure to be taking into account. The net effect of the issue of 10% debenture stock and a new loan of \$ 50 000 would result in gearing being increased by the sum of \$80 000. As there was a premium on the rights issue of shares then the reserves would also increase by the amount of this premium.

**Item 24**

The main requirement of this item was to calculate the material usage. A careful reading of the item would confirm that starting with the quantity of units sold which was 10 000 , less opening inventory 600 units, plus closing inventory of 800 units, which is 10 200 units at the material cost of \$13, which results in \$132 600 which was option 'D'

# ACCOUNTING

**Paper 9706/32**  
**Multiple Choice (Supplement)**

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

## General comments

Overall the paper was well answered by candidates and provided evidence of differentiation between the well-prepared candidates and those who were less well prepared. The mean mark was 15.47 and the standard deviation was 5.43. Marks in excess of 20 were achieved by approximately 19% of candidates. This figure has scope for improvement by candidates reading the questions more carefully and understanding fully what is required of them.

Candidates experienced few difficulties with **items 13, 20, 29, and 30** which were generally well answered.

However, several questions did appear to prove more difficulty.

## Comments on specific items

### **Item 6**

Many candidates did not appear to know that the premium on a new issue of shares can be set against the shares being repaid, to reduce the need to use distributable reserves. This would result in the amount of distributable reserves being reduced by \$90 000.

### **Item 10**

The key in this item is understanding that when valuing Inventory all costs of getting inventory to its present location and condition should be included, so long as these costs can be recovered. Many candidates did

not include the conversion costs in their calculation of the inventory, and some did not include the carriage inwards.

**Item 11**

This item proved difficult for all but the most able candidates. The main difficulty appeared to be a lack of knowledge regarding the correct definition of cash and (particularly) cash equivalents. Cash equivalents include cash deposits with less than six months to maturity. This would result in the correct figure of \$16 000.

**Item 17**

This item proved to be demanding with two separate aspects of capital structure to be taking into account. The net effect of the issue of 10% debenture stock and a new loan of \$ 50 000 would result in gearing being increased by the sum of \$80 000. As there was a premium on the rights issue of shares then the reserves would also increase by the amount of this premium.



# ACCOUNTING

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<b>Paper 9706/33</b>
<b>Multiple Choice (Supplement)</b>

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

## General comments

Overall the paper very well received by candidates and provided evidence of differentiation between the well-prepared candidates and those who were less well prepared. The mean mark was 21.20 and the standard deviation was 3.99. It is pleasing to note that marks in excess of 20 were achieved by more than 60% of candidates. This figure has scope for improvement by candidates reading the questions more carefully and understanding fully what is required of them.

Candidates experienced few difficulties with the majority of the items. However centres may wish to note the following comments regarding items which some candidates found difficult.

## Comments on specific items

### **Item 5**

Several candidates did not appear to know that the premium on a new issue of shares can be set against the shares being repaid, to reduce the need to use distributable reserves. This would result in the amount of distributable reserves being reduced by \$90 000.

**Item 9**

The key in this item is understanding that when valuing Inventory all costs of getting inventory to its present location and condition should be included, so long as these costs can be recovered. Many candidates did not include the conversion costs in their calculation of the inventory, and some did not include the carriage inwards.

**Item 10**

This item proved difficult for all but the most able candidates. The main difficulty appeared to be a lack of knowledge regarding the correct definition of cash and (particularly) cash equivalents. Cash equivalents include cash deposits with less than six months to maturity. This would result in the correct figure of \$16 000.

**Item 16**

This item proved to be demanding with two separate aspects of capital structure to be taking into account. The net effect of the issue of 10% debenture stock and a new loan of \$ 50 000 would result in gearing being increased by the sum of \$80 000. As there was a premium on the rights issue of shares then the reserves would also increase by the amount of this premium.



# ACCOUNTING

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**Paper 9706/41**  
**Problem Solving (Supplement)**

## General Comments

The paper provided opportunities for differentiation within the structure of the questions, and a full range of marks was achieved. The questions were fully answered within the given time, all candidates being able to complete the paper. Although at times there were some gaps in candidate knowledge, the majority of candidates produced reasonable answers to each question with some excellent scripts. **Question 3** proved to be the question for which candidates were less prepared as many did not use a logical approach to the tasks set. In contrast **Question 1** was answered well by the majority of candidates.

## Comments on Specific Questions

### Question 1

Part (a) was generally well answered except for the profit share where Chuck had a minimum share of \$7200. Candidates did not allocate the profit properly to the other partners when there was less than this amount to share out (that is they had to have a negative allocation). Other common errors were the miscalculation of depreciation by ignoring the additional \$17 000 spent on machinery, the incorrect treatment of bad debt recovered, the incorrect inclusion of interest on drawings despite no interest rate being given and adding the salary and interest on capital rather than deducting them.

Part (b) was well answered, although a few candidates confused capital with current accounts and recorded the wrong entries. A common error was to not adjust the drawings for Bhupesh.

Part (c) was not as well answered as part (b) as candidates often omitted to use a realisation account, or did not show their workings for the calculation of the surplus or deficit of the disposal of the business. Other common errors were not including the share premium and valuing the shares at par, calculating goodwill as well as the realisation surplus, including salary and other entries from the current account and not transferring the balances to the bank account.

Part (d) was satisfactorily answered by the majority of candidates, although quite a few entered the bank balance on the wrong side and referred to the purchase consideration from EDC as just cash. Bad debts were often omitted.

### Question 2

Part (a) If the layout was known and understood then the candidate was able to achieve reasonable marks on this question. The common errors included miscalculating the amount of taxes paid and the depreciation charge for plant and machinery and vehicles. Dividends paid were often included as a cash movement

Part (b) again if the layout was known then candidates were often able to perform well in this question. The common errors included the miscalculation of the receipts from the rights issue of shares and the correct treatment of the share premium arising.

Part (c) was poorly answered as many candidates did not understand the meaning of net debt and how it related to the cash flow statement.

Part (d) in contrast to part (c) was well answered with many candidates scoring full marks. Common errors included comments that a cash flow statement would be used by banks to assess the creditworthiness of granting loans or that it could be used to forecast cash movements in the future instead of being based on historical data.

### Question 3

Part **(a)** had variable responses. The weaker candidates did not appear to understand the question and often answered from the perspective of Brad Driscoll, not the cricket club whereby salary and rent were treated as income rather than as a business expenses. Furthermore many candidates misunderstood that rent was payable at the start of the year. The 10% increase on the receipts were often miscalculated as either 10% added to \$1000000 or 10% added to the previous year's 10%. The best approach used was to work out the annual cash flows as these were needed for the net present value calculation in part **(b)**.

Part **(b)** although most candidates knew how to apply the technique for the calculation of the net present value, it was made more difficult if the annual cash flows had not been calculated in part **(a)** to identify the cash flows for discounting. Year 0 was often ignored with its initial payment.

Part **(c)** had very mixed responses. Some candidates knew how to correctly calculate payback but others seemed unsure how to deal with a negative net present value and many chose not to use the discounted net cash flows.

Part **(d)** was well answered in the main. A common error was to fail to elaborate information taken directly from the question, for example stating that Brad would play for 5 years and Tanzeel would retire after 3 years but without developing further.

# ACCOUNTING

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**Paper 9706/42**  
**Problem Solving (Supplement)**

## General Comments

The paper provided opportunities for differentiation within the structure of the questions, and a full range of marks was achieved. The questions were fully answered within the given time, all candidates being able to complete the paper. Although at times there were some gaps in candidate knowledge, the majority of candidates produced reasonable answers to each question with some excellent scripts. **Question 3** proved to be the question for which candidates were less prepared as many did not use a logical approach to the tasks set. In contrast **Question 1** was answered well by the majority of candidates.

## Comments on Specific Questions

### Question 1

Part (a) was generally well answered except for the profit share where Chuck had a minimum share of \$7200. Candidates did not allocate the profit properly to the other partners when there was less than this amount to share out (that is they had to have a negative allocation). Other common errors were the miscalculation of depreciation by ignoring the additional \$17 000 spent on machinery, the incorrect treatment of bad debt recovered, the incorrect inclusion of interest on drawings despite no interest rate being given and adding the salary and interest on capital rather than deducting them.

Part (b) was well answered, although a few candidates confused capital with current accounts and recorded the wrong entries. A common error was to not adjust the drawings for Bhupesh.

Part (c) was not as well answered as part (b) as candidates often omitted to use a realisation account, or did not show their workings for the calculation of the surplus or deficit of the disposal of the business. Other common errors were not including the share premium and valuing the shares at par, calculating goodwill as well as the realisation surplus, including salary and other entries from the current account and not transferring the balances to the bank account.

Part (d) was satisfactorily answered by the majority of candidates, although quite a few entered the bank balance on the wrong side and referred to the purchase consideration from EDC as just cash. Bad debts were often omitted.

### Question 2

Part (a) If the layout was known and understood then the candidate was able to achieve reasonable marks on this question. The common errors included miscalculating the amount of taxes paid and the depreciation charge for plant and machinery and vehicles. Dividends paid were often included as a cash movement

Part (b) again if the layout was known then candidates were often able to perform well in this question. The common errors included the miscalculation of the receipts from the rights issue of shares and the correct treatment of the share premium arising.

Part (c) was poorly answered as many candidates did not understand the meaning of net debt and how it related to the cash flow statement.

Part (d) in contrast to part (c) was well answered with many candidates scoring full marks. Common errors included comments that a cash flow statement would be used by banks to assess the creditworthiness of granting loans or that it could be used to forecast cash movements in the future instead of being based on historical data.

### Question 3

Part **(a)** had variable responses. The weaker candidates did not appear to understand the question and often answered from the perspective of Brad Driscoll, not the cricket club whereby salary and rent were treated as income rather than as a business expenses. Furthermore many candidates misunderstood that rent was payable at the start of the year. The 10% increase on the receipts were often miscalculated as either 10% added to \$1000000 or 10% added to the previous year's 10%. The best approach used was to work out the annual cash flows as these were needed for the net present value calculation in part **(b)**.

Part **(b)** although most candidates knew how to apply the technique for the calculation of the net present value, it was made more difficult if the annual cash flows had not been calculated in part **(a)** to identify the cash flows for discounting. Year 0 was often ignored with its initial payment.

Part **(c)** had very mixed responses. Some candidates knew how to correctly calculate payback but others seemed unsure how to deal with a negative net present value and many chose not to use the discounted net cash flows.

Part **(d)** was well answered in the main. A common error was to fail to elaborate information taken directly from the question, for example stating that Brad would play for 5 years and Tanzeel would retire after 3 years but without developing further.

# ACCOUNTING

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<p>Paper 9706/43 Problem Solving (Supplement)</p>
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## General comments

The paper provided opportunities for differentiation within the structure of the questions, and a full range of marks was achieved. The questions were fully answered within the given time, all candidates being able to complete the paper. Although at times there were some gaps in candidate knowledge, the majority of candidates produced reasonable answers to each question with some excellent scripts. **Question 1** was the best answered question with some excellent answers, being clearly laid out and showing full workings. **Question 3** was the least well answered question as many candidates did not show adequate workings or appeared unsure of the approach to be used for process costing.

## Comments on specific questions

### Question 1

- (a) Part (a) was generally well answered with the majority of candidates achieving most of the marks. Common errors included treating the closing balances as credit balances brought down and miscalculating the amount of profit to be shared out. Many candidates did not adjust the draft net profit for the interest on capital or the interest on drawings. Candidates used a variety of layouts including a columnar calculation and using current accounts. Both layouts were acceptable.
- (b) Part (b) was well answered. The majority of candidates correctly adjusted for the depreciation, sales, discounts, drawings, and bad debt. Errors were made on omitting the loss on disposal of the non-current asset and the bad debt recovered plus miscalculating the provision for doubtful debts.
- (c) Part (c) was again well answered. The most common error was to forget to include the family holiday as drawings for Boris when calculating the interest on drawings.
- (d) Part (d) was satisfactorily answered by the majority of candidates, although the family holiday was again omitted as drawings and many used the current accounts closing balances instead of the opening balances which they calculated in part (a).
- (e) Part (e) was not well answered. Only a few candidates thought that keeping the capital and current accounts separate would show if a partner withdrew more than he was entitled to!

### Question 2

- (a) Part (a) was satisfactorily answered but in order to do the question, the candidates had to know the correct approach of using ratios to calculate the figures required for an income statement. Clear and full workings were essential. A common error was to omit the operating profit from the income statement. Candidates must also remember that profit for the year and gross profit must be clearly identified and labelled within their answer. The calculation of the balance of retained earnings was well answered, although the amount of dividends paid during the year was often miscalculated or omitted.
- (b) Part (b) was well answered. The answer was correctly presented in good format by the majority of the candidates. The main areas of difficulty were the calculation of the balancing figure for the bank and the calculation of the trade receivables. Many candidates forgot that only 50% of the revenue was on credit and did not adjust their revenue figure accordingly.

- (c) Part (c) was not answered well as most candidates did not know what income gearing was and so missed out this part of the question. The gearing ratio was well answered. Candidates must remember to write their answer in good form, i.e. as a percentage.
- (d) Part (d) was answered well with regards to the gearing ratio.
- (e) Part (e) was well answered, although many candidates gave comments on all the ratios listed in the scenario information as they failed to see that the question only wanted comments on the liquidity position. Many answers also included comments on how to improve the ratios which were not asked for. A common comment was to state that the current ratio was exactly as recommended, namely 2.5:1. But no information had been given on the type of business so a generic comment like this should be avoided.

### Question 3

The most important consideration with this type of question, is that ALL workings must be shown. If an error is made early on within the question, i.e. with the calculation of the number of units or in process one, which is carried forward, then own figure marks will be awarded if the candidate shows all workings. But if a mistake is made and there are no workings then very few marks will be given as it will be unclear where the figures have come from!

- (a) Part (a) was predominantly calculated correctly, although some candidates forgot the normal loss of 10%.
- (b) Part (b) although most candidates knew how to present a process account, some forgot to include the scrap units in the process 1 account. Several candidates reversed the process account. Clear workings were needed.
- (c) Part (c) had very mixed responses. Some candidates knew how to correctly calculate equivalent units for the cost of raw materials but others seemed unsure how to begin. If the wrong amount of units was calculated in part (a) then it was vital that the working was clear for the completed and partly completed units.
- (d) Part (d) was variable in the responses. The most common errors were to omit the variable overheads or the figures from process 1 completely from the calculation. A clear working was required to gain full marks. The use of a tabular format is recommended.
- (e) Part (e) was well answered.

