

ACCOUNTING

Paper 9706/11
Multiple Choice

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

General comments

A total of 1166 candidates took this paper. Overall candidates performed well, with 57% of candidates achieving a score of 16 or more out of 30. The median score was 16, with the mean slightly higher.

Some questions proved easy to candidates, with **Questions 2, 4, 7, 10, 11, 21, 22, 25** and **26** being answered correctly by 65% or more of candidates. These questions mainly focused on financial accounting, with the exception of the last two which related to management accounting.

There were some questions which from the data proved challenging for candidates. These will be considered below.

Specific questions

Question 1

This question was relatively straightforward. The opening debit balance of \$800 was the prepayment brought forward from last year. The payment made during the year (\$2100) included a prepayment of six months relating to the next year. The charge for the year was, therefore \$800 plus half of \$2100 (\$1050), making a total of \$1850. This was key B. Many candidates took the charge for the year as \$2100, key D.

Question 8

The answer took the closing bank statement balance of \$937 overdrawn, added on to it the outstanding cheques of \$214 and deducted the uncleared banking of \$35 to arrive at the correct key of \$1116. There is some logic to then adding the bank charges of \$76 to this figure as they had not been entered in the cash book. The point at which the statement of financial position had been prepared was the distracter, the presumption being that it had been prepared before the statement had been received. On reflection, this should have been made clearer in the question.

Question 20

With this question candidates were obviously unclear of the makeup of a limited company's equity. It is made up only of share capital, share premium, retained earnings and reserves. Debentures are not part of the equity, so should not have been included in the calculation. The only addition to the existing \$25 000 equity was the new share issue of 5000 shares at a total issue price of \$6000, making the key of \$31 000.

Question 23

The syllabus clearly identifies the formula for calculating return on capital employed as the net profit before interest, or profit from operations, divided by the capital employed (share capital + reserves + non-current liabilities). Thus the correct calculation was $200 \div 1000 \times 100 = 20\%$. Many candidates wrongly divided the profit by the share capital and reserves.

Question 30

This is a question which causes problems every time it is asked. The measure of over or under absorption of overheads is to apply the budgeted overhead absorption rate to the *actual* hours worked. The resulting figure is then deducted from the actual overheads paid, the difference being the over or under absorption. The budgeted overhead absorption rate was \$15. Following the calculation through, this meant the total overheads recovered were $\$15 \times 9500 \text{ hours} = \$142\,500$. The actual overheads paid were \$160 000, so there was an under recovery of \$17 500. The most common answer was to deduct the actual from the budgeted overheads. This is an expenditure variance and not a measure of under/over absorption.

Areas for improvement

There were one or two areas where knowledge of double entry and costing techniques were suspect. This is something which can be worked on with teachers. The candidates have 60 minutes to answer 30 questions. They should be tackling one question every 2 minutes. In working through the paper candidates should always attempt first those questions which they know or can easily calculate the answer. Then move back to those about which they are unsure. This use of time should help them improve their overall performance.

ACCOUNTING

Paper 9706/12
Multiple Choice

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

General comments

A total of 7022 candidates took this paper. Overall the candidates performed well with 63% of candidates achieving a score of 15 or more and one candidate achieving the maximum score of 30. The median score was 18 with the mean slightly lower.

Questions 9, 12, 13, 14, 15, 16 and **24** earned very high scores with candidates. There appeared to be one **Question (8)** where candidates guessed at the answer. In this particular case the key was **C**, being the addition of $(\$28142 \times 2) + \$450 + \$270$, the latter is the transposition error.

There were only four questions which appeared to prove difficult and they are discussed below.

Specific questions

Question 1

The firm's year end is 30 April. Payments of \$1000 were made on the first of each month. These payments covered the period up to 31 January as they are paid in advance, a total of 9 payments during the year. There were then 3 payments of \$1200 per month to cover the remainder of the year. Overall, therefore the total amount due for rent was $\$9000 + \$3600 = \$12\,600$, which was the key, **B**. There was no prepayment which was where most of the wrong answers focused.

Question 6

The goods in question were with a customer on a sale or return basis. This means that no sale had been made and, therefore the sales revenue for the year should be reduced as it includes a sale which has not taken place. The goods then need to be included in closing inventory. The question hinges on what value each element is. The goods had been sold at \$6 per unit. Thus sales should be reduced by $\$6 \times 100 = \600 . Despite costing \$10 the fact that they can only be sold for \$6 means this is their net realisable value. Thus they should be added to inventory also a \$6 per unit (\$600). This makes the correct key **C** and not, as many identified D.

Question 17

This question also considers the aspect of cost versus net realisable value. From the data given, realisable value (\$45 000) is below cost (\$45 000). However, to bring the goods to a saleable condition a further \$5000 needs to be spent. Thus the value to include the goods in inventory is $\$45\,000 - \$5\,000 = \$40\,000$, which was the key.

Question 19

The key to this question is D: preference shareholders may get a dividend. Key A implies the shares are cumulative, which was not the case, whilst **B** and **C** would not be true if the company made no profit.

Areas for improvement

For this paper the costing questions were quite well attempted. This is encouraging, as costing is an area where candidates traditionally struggle. The candidates have 60 minutes to answer 30 questions. They should be tackling one question every 2 minutes. In tackling the paper candidates should always attempt first those questions to which they know or can easily calculate the answer. Then move back to those about which they are unsure. This use of time should help them improve their overall performance.

ACCOUNTING

Paper 9706/13
Multiple Choice

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

General comments

A total of 318 candidates took this paper. The results were good, with 65% of candidates scoring 15 or more. The median was 16 with the mean slightly higher.

Candidates for the paper seemed well prepared which was reflected in the fact that **Questions 6, 7, 11, 12, 14, 23, 24** and **25** earning very high scores with candidates. There were three questions which caused difficulty and are discussed below.

Specific questions

Question 1

This question looked at the use of the journal. Items such as year end adjustments and unusual transactions are always recorded in it. In practice therefore, items 1, 2 and 4 would always be recorded in the journal. The annual depreciation charge is always entered. The entry of a bad debt written off would need to be countersigned by a senior manager in order to prevent fraud; and it would be usual for interest charged on a bad debt to be likewise authorised. The discount allowed on the settlement of a debt would be something which happens in the normal course of trading. Indeed, it would be stated on the invoice. Thus it would not be entered in the journal.

Question 5

Here the emphasis was on revaluation of non-current assets. The answer hinges on the fact that if a business decided to revalue one item of a particular class of assets, e.g. freehold land, then all freehold land must be re-valued. This is done to prevent a firm from only revaluing those assets of a particular class which will show an increase in value. If some assets in the class have lost value then the business must also stand that loss in its final accounts.

Question 15

This was a challenging question which candidates found difficult. As a result of the goods taken, X's current account would be debited with \$2400. The current accounts of the two partners would also be credited with the profit the goods taken in the ratio of 2:1. Thus X would be credited with \$600 and Y with \$300. At this point X has a net debit on the current account of \$1800. If the goods are reduced to their cost price, this will result in X having a net debit of \$1500. By crediting X with \$300 this is achieved. By debiting Y with the same amount the profit which no longer exists is eliminated from Y's current account.

Question 19

The key to this question was given as **A**. This was to indicate that despite the fact the preference shares are non-cumulative the business may want to make up arrears of dividend from previous years.

Areas for improvement

As indicated earlier, the good response to this paper shows that teachers are giving good coverage to the syllabus, which is reflected in the high marks. The candidates have 60 minutes to answer 30 questions. They should be tackling one question every 2 minutes. In tackling the paper candidates should always attempt first those questions to which they know or can easily calculate the answer. Then move back to those about which they are unsure. This use of time should help them improve their overall performance.

ACCOUNTING

Paper 9706/21
Structured Questions

Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Comments on specific questions

Question 1

(a) (b) Both **(a)** and **(b)** were generally answered well, with the majority of candidates scoring full marks. Many candidates prepared control accounts to calculate the credit purchases and credit sales with just a few forgetting to add on the cash sales in **(b)**. There were some candidates who incorrectly put the purchase of a new vehicle in the purchases calculation and the sale of the old vehicle in the sales calculation.

(c) Although this question appeared to cause some problems for candidates several candidates managed to gain full marks. Weaker candidates confused margins and mark-ups; and others applied the 40% adjustment to the sales figure to derive the gross profit for one mark but forgot to apply the remaining 60% as the cost of sales, using a different figure entirely.

The 60% adjustment to the \$14 000 to derive the cost of the estimated closing inventory was often omitted, candidates incorrectly using the full \$14 000. Sometimes, the figure was ignored altogether.

(d) The main problem here was in the calculation of the vehicle depreciation. Many candidates depreciated over the full three years to give \$12 000 despite the question clearly stating that no depreciation was to be charged in the year of disposal. Others ignored the \$3600 received from the sale of the old vehicle and some were clearly unsure of the meaning of 'trade-in' and either ignored it, or put it in with the bank figure. Despite the difficulties encountered many scored some marks here and quite a number scored full marks. Candidates must read the questions carefully before answering.

- (e) This was well answered by a large number of candidates.

Weaker candidates who had correctly calculated \$9 000 for the closing inventory in part (c) ignored it altogether in part (e) and resorted to \$14 000.

The candidate's own figure was used for the profit on disposal of the motor vehicle, and an own figure mark was given even if they had calculated a loss here. The provision for doubtful debts was often incorrectly calculated on the previous year's trade receivables figure giving \$540 rather than the correct figure of \$615. Some of the candidates who had correctly calculated the inventory loss of \$600 surprisingly ignored the loss in the income statement. The expenses were not always done well, candidates either forgetting to adjust the \$17 400 at all or applying only one from the accrual at the start of the year and the prepayment at the end of the year.

Most candidates scored some marks in this section as there were own figure marks for both gross profit and net profit. However, a surprising number of candidates neglected to label the respective profit correctly.

Question 2

This question was generally answered well but many chose to ignore the instruction to show the profit or loss on the dinner dance and competitions.

- (a) The subscription account was generally well done. There were a number of candidates who put the entries on the wrong side, but these were the minority. Quite a few ignored the bad debts figure or put it on the debit rather than the credit side and some entered the sale of assets in the subscription account. Some listed figures as additions and deductions and did not show their answer in account form thereby losing the marks. Candidates must read the question carefully. Some questions instruct the candidate to calculate a figure as in **Question 1(a)** whereas some instruct the candidate to prepare an account. In the former, any method is acceptable to arrive at the answer, but in the latter if an account is not shown then the marks are lost.
- (b) The question asked the candidate to show the profit/loss on the competitions and the dinner dance. However, a large number of candidates lost marks by ignoring this instruction instead entering the competitions and dinner dance income and expenditure separately instead of netting the figures out to give a profit or loss on each of these activities.

The treatment of the deposit account was problematic. A large number of candidates failed to spot that the investment was for six months and not for twelve. Others treated this as a loan to the club incorrectly recording interest payable rather than interest receivable. Depreciation of \$20 000 was also missing from most answers, as were the bad debts.

- (c) A number of candidates did not total the non-current assets.

The subscriptions owing often appeared under 'current liabilities' and the deposit account was either omitted or entered as a long term liability. The bank account was sometimes added to the deposit account and sometimes was not included at all. The current liabilities were generally well done. The finance section sometimes suffered from the incorrect opening totals for the accumulated fund. Own figure marks helped many who handled their own surplus/deficit correctly.

Question 3

There were some good answers here with many candidates achieving full marks. However, it was obvious that many candidates were not confident with this part of the syllabus, particularly the sections of the question relating to the application of overhead recovery rates.

- (a) The majority of candidates gained full marks in (i), (ii) and (iii) which were relatively straightforward questions
- Part (iv) was also often well done, although many appeared to be unsure of the term 'contribution per direct labour hour'.
- (b) Even with the correct answer to (a)(iv) many struggled to link the contribution per direct labour hour with an order of priority for production.

- (c) There were some good answers but a common error in **(c)(i)** was to include the direct labour hours as part of the variable costs. Part **(ii)** was often left unanswered with few candidates making any real attempt at an answer. A few did calculate the \$2400 correctly, but then were confused about whether it was over or under absorbed.
- (d) Many candidates scored full marks but a common mistake with weaker candidates was to use the total variable cost per unit figure of \$95 as the divisor rather than the contribution per unit of \$5.
- (e) Many candidates displayed a limited awareness of the meaning of margin of safety. Even when they gained full marks in part **(d)** they did badly in part **(e)**.

ACCOUNTING

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| <p>Paper 9706/22 Structured Questions</p> |
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Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Specific questions:

Question 1

- (a) The majority of candidates were able to correctly answer this task requiring the addition of assets and the deduction of one liability.
- (b) The preparation of the income statement was generally well done by most candidates with the main problem being in the calculation of the depreciation for the year.
- (c) Although most candidates were able to correctly calculate the ratio many candidates lost valuable marks by ignoring the instruction to show their answer to two decimal places.
- (d) This was badly answered with candidates appearing to misunderstand the requirement of the task.

Question 2

- (a) The preparation of the partnership appropriation account was well done by most candidates but there was some difficulty with the calculation of interest on capital which should have taken account of the fact that part of Amina's capital was paid in half-way through the year, so should have had only a half year's interest applied.
- (b) The preparation of the current accounts was well done by the majority of candidates with correct layouts being applied.
- (c) The calculation of goodwill was correctly calculated by most candidates with the main difficulty being including items which were erroneous.

- (d) The preparation of a journal entry was well done by most candidates.
- (e) The preparation of the suspense account was well done with only a small number of candidates presenting a reversed account which was incorrect.

Question 3

- (a) This task was answered well by the majority of candidates.
- (b) This task required candidates to show the profit or loss for **each** of three products, but many candidates ignored this request and calculated only the total profit. Candidates are reminded of the need to read the question carefully.
- (c) This task required candidates to divide the total contribution for each product, calculated in (b), by the total direct labour hours for each, calculated in (a). Or, if the candidate had calculated (b) using unit costs, then by multiplying the unit contribution in (b) by the output in labour hours, given in (a). Candidates found this difficult and subsequently did not score many marks.
- (d) Again this task was poorly answered with candidates misunderstanding the requirements of the task.
- (e) In order to gain marks in the task candidates needed to state that profits would be reduced (1) due to increased fixed costs (1) and loss of contribution from Hazel (1) so should produce all three (1).

ACCOUNTING

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| <p>Paper 9706/23 Structured Questions</p> |
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Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Specific questions:

Question 1

- (a) There were many excellent responses here, though a few lost marks by including sales in the manufacturing account. The most common errors made by candidates were in omitting the returns outwards from the prime cost section and entering it as a factory overhead, and deducting the factory overheads from the prime cost.
- (b) This task was also well done by the majority of candidates with the most common errors being in the omission of depreciation of premises and a miscalculation of the bad debts provision.
- (c) This task was well done by the majority of candidates.

Question 2

- (a) The majority of candidates produced some excellent accounts here with weaker candidates confusing the entries in the capital and current accounts. Some combined Bach's bank and motor van entries into one entry called capital, which was not acceptable as the double entries would be in the bank and motor van accounts.
- (b)(i) This task was well answered by all candidates.
- (ii) This task was also well answered with weaker candidates erroneously including drawings and capital in their calculation.
- (c) This task was well answered but a small number of candidates were unsure about which entries should be credited and which debited, and opening balances were occasionally reversed.

- (d) Well prepared candidates achieved full marks in this task while weaker candidates did not know that shareholders could lose only the amount of their investment.

Question 3

- (a) The majority of candidates were able to correctly calculate the figures.
- (b) Similarly the majority of candidates provided correct responses to this task.
- (c) There were mixed responses to this task with many candidates not realising that it would be necessary to work out a priority for the use of the available material, and instead calculated 80% of the profit shown in (b). Correct calculations show that Beta was last with 7408 units, with the other products fulfilling their original sales quantities.
- (d) The majority of candidates were able to correctly calculate the figures.
- (e) This task was well answered by the majority of candidates.

ACCOUNTING

Paper 9706/31
Multiple Choice (Supplement)

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

General comments

A total of 854 candidates took this paper. The results indicated an improvement on the previous session, with 50% of candidates achieving a score of 15 or more out of 30. The median score was 15, with the mean slightly lower.

Some questions proved easy to candidates, with **Questions 1, 5, 8, 12, 14** and **30** being answered correctly by 65% or more of candidates. The questions covered a range of topics, which seems to indicate that candidates and teachers are covering more of the syllabus. This can only be positive for future sittings. There seemed, though to be quite a number of questions where candidates found difficulty. These will be considered below.

Specific questions

Question 2

This question required candidates to identify the rate of depreciation, which was 10% using the straight line method. At the end of 2011 the cost of the assets was \$59 000 and would have been depreciated by \$5 900 for the year. This, added to the \$5 000 accumulated depreciation gave total accumulated depreciation for the year of \$10 900. The closing net book value of non-current assets was, therefore \$59 000 - \$10 900, giving the correct key of **D**.

Question 3

Surprisingly, this question was not well done. It was simply a matter of adding together the original capital of X and Y, the increase in value of non-current assets and the capital introduced by Z, giving a total of \$215 000, being the key. Most candidates added on to this figure the goodwill. This would have been written off.

Question 7

Again, this was surprisingly not well answered. The existing share capital and reserves totalled \$370 000. The dividend paid would reduce this figure by \$70 000 making the key **B**. The issue of bonus shares would not affect this position. The issue of the debenture would not be part of the share capital and reserves. A large number of candidates thought they would.

Question 9

Once again this was a straightforward question. The balance of the purchase price to be covered by the shares was \$92 500. If 18 500 shares are issued their market value must be \$5 ($92\,500 \div 18\,500$).

Question 18

The syllabus clearly indicates the formula for the calculation of return on capital employed. The finance costs needed to be added to the profit before tax to arrive at the profit before interest and tax. This should then have been divided by the share capital and reserves figure, giving the key **D**.

Areas for improvement

There are a number of areas covered above where concentrating on the basics, such as the make up of capital employed and the formulae in the syllabus would help candidates earn a higher mark. Improved knowledge of the contents of the accounting standards and the requirements of the companies act would also improve results.

ACCOUNTING

Paper 9706/32
Multiple Choice (Supplement)

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

General comments

A total of 5782 candidates took this paper. The results indicated that candidate's performance had not improved on previous sittings with only 52% of candidates gaining 15 or more marks for the paper. On the positive side 6 candidates achieved full marks. The median score was 15 with the mean slightly higher.

Questions 1, 12, 21, 24, 25 and 28 earned very high scores with candidates. These questions covered a range of topics. This is encouraging, indicating candidates and teachers are covering the whole syllabus.

There were some questions which appeared to prove difficult and they are discussed below.

Specific questions

Question 3

This question looked at the unearned profit in inventory. Candidates needed to divide the closing inventory by 125% to arrive at the cost, giving \$400 000. This means that \$100 000 was the profit added to inventory and needed to be deducted, giving the key **C** rather than **D**, which most candidates chose.

Question 8

No new shares were issued on the redemption of the shares. Thus the capital cost of the shares redeemed needed to be added to the existing capital redemption reserve, giving a new total of \$20 000, which was the key. Most candidates also added the premium payable on redemption to the CRR. This would have been deducted from the retained earnings.

Question 11

It appears that the timing of the payment of the dividends caused confusion with this question. The actual dividends paid in the second year would have been the proposed dividend from year 1 plus the interim dividend in year 2, making a total of \$120 000, the key **B**.

Question 14

The equity at the start was increased by the profit from operations and reduced by the loan stock interest of \$3000 and the dividends of \$8000, the latter being the new share capital of \$80 000. This left the closing total of \$229 000, being the key **A**.

Question 27

The reduction in unit selling price still left the actual price higher than the standard price. As this resulted in an increase in units sold, both the sales price and sales volume variances would be favourable.

Areas for improvement

Generally the papers are covering more of the syllabus in an attempt to reduce their predictability. This is something teachers and candidates should note in their teaching and revision respectively.

ACCOUNTING

Paper 9706/33
Multiple Choice (Supplement)

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

General comments

A total of 137 candidates took this paper. The results were good, with 77% of candidates scoring 15 or more. The median score was 19 and the mean marginally lower.

Candidates for the paper seemed well prepared which was reflected in the fact that a high proportion of questions earning very high scores with candidates. The result of this was that very few questions caused any difficulty and are discussed below.

Specific questions

Question 11

The most common error with this question was that candidates failed to include the repayment of the loan due within the next twelve months (\$20 000) in the current liabilities. Had they done so they would have arrived at the key **C** rather than most who wrongly answered D.

Question 18

This was a knowledge based question. IAS37 defines a provision as 'a liability of uncertain timing', which was the wording of the key.

Question 21

The calculation for this question considered the input of material into the process. Enough material for 500 units was input into the process. If the normal loss was 50 units then the actual output was 450 units. This was given as the key. On reflection the number of hours per unit should have been excluded, although this would have made the answer more obvious.

Question 22

By doubling the payment period the business will automatically generate an immediate one-off saving of \$100 000. Added to this would be two months of \$40 000 per month giving the key of \$180 000.

Areas for improvement

As indicated earlier, the good response to this paper shows that teachers are giving good coverage to the syllabus, which is reflected in the high marks. Hopefully this trend will continue in the future.

ACCOUNTING

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| <p>Paper 9706/41 Problem Solving (Supplement)</p> |
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Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

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Comments on Specific Questions

Question 1

- (a) Candidates experienced difficulties in calculating the non-current asset turnover and lost marks due to rounding down the trade receivables and trade payables turnovers.
- (b) Candidates were unable to explain adequately the relationship between trade receivables and trade payables.
- (c) Most candidates calculated the depreciation charges correctly for the two relevant years but a significant number were still unable to identify the carrying amount correctly. Despite the straightforward calculation required for the fair value few candidates provided the correct answer indicating a lack of understanding. Candidates generally scored reasonable marks for the value in use calculation although many were penalised for deducting the equipment cost from the cashflows.
- (d) Overall this was poorly answered with candidates clearly not prepared for this type of question.
- (e) Only well prepared candidates were able to answer this question correctly, with few being able to correctly identify or calculate the cost of capital.
- (f) Many candidates gave 'higher rate of depreciation' as their answer. Very few candidates correctly named the IAS.
- (g) Poorly answered with the majority of candidates just repeating the costs given in the question.

Question 2

- (a) The majority of candidates made a good attempt at this question but lost marks due to a failure to account for the interest on the debentures which were issued during the year.
- (b) Only a few candidates prepared the required statement and many produced a cash flow statement which contained many figures which were not required.
- (c) Only well prepared candidates were able to score any marks with the vast majority writing about inherent goodwill which would have no effect on the balance.
- (d) Few candidates were able to calculate the income gearing but the gearing ratio calculation was well answered. A disappointingly large number of candidates ignored the requirement to calculate to two decimal places.
- (e) The dividend per share calculation was well answered but the earnings per share less so mainly due to candidates not being able to deal with the share issue which took place during the year.
- (f) Generally candidates who had calculated the gearing ratio and dividend per share correctly were able to provide appropriate comments.

Question 3

- (a) The responses by candidates were of a good standard with those candidates who did not calculate the correct number of units often scoring two of the three marks as a result of showing their workings.
- (b) Those candidates who had answered part (a) correctly together with those using their own figure from (a) produced many fully correct process accounts.
- (c) This question was less well answered with few fully correct accounts. Most candidates did produce neat workings and were rewarded where appropriate.
- (d) This part was poorly answered. Many candidates produced calculations comparing the normal selling price of \$155 with the offered price of \$92. Those candidates who calculated the contribution invariably failed to account for the fact that the fixed cost was included in the unit price which they had calculated.

ACCOUNTING

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| <p>Paper 9706/42 Problem Solving (Supplement)</p> |
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General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

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Comments on Specific Questions

Question 1

This question identified the importance of showing all workings.

Part (a) was generally quite well done. The main problem areas were poor number handling and applying the wrong formula. Common errors included:

- Candidates worked out average inventory times ten but thought that was sales and the average inventory was often divided by ten.
- The opening inventory was usually calculated as $\$81250 \times 0.75$ rather than $\$81250 \div 1.25$.
- There was an inability to relate the level of gross profit with the revenue. Candidates often correctly calculated the right cost of sales but failed to apply the gross profit ratio to cost of sales to get the correct revenue figure.
- There was a lack of knowledge as to what the 15% net profit related to. Many candidates calculated 15% of the revenue but related this to the overall net profit rather than profit from operations.
- The 12.5% for the interest payable was usually miscalculated.

In general candidates often illustrated a lack of knowledge of the format for the income statement. Marks were lost for not correctly identifying the profit from operations and the net profit (profit for the year, etc.).

Part (b) was again quite well answered, although a few candidates failed to show any workings for the statement of financial position, especially when calculating trade receivables and trade payables.

Non-current assets were often calculated by multiplying revenue by 2 instead of dividing it by 2. In the equity section candidates often treated the opening retained earnings as negative or showed the retained earnings brought forward as a separate figure to the retained earnings for the year calculated in the income statement.

Part (c) was well answered with the majority of candidates knowing that a proposed dividend was not shown in the statement of financial position at all.

Question 2

This question was generally poorly attempted and identified gaps in candidate knowledge.

Part (a) was poorly attempted with few candidates able to correctly calculate the amount of units produced and their cost as they based their calculations on revenue.

Part (b) was quite well answered with a variety of approaches used. Some candidates amended the original balance in the form of a simple calculation whereas other candidates reproduced the statement of financial position containing the amended figures so the corrected retained earnings were the balancing figure. Candidates often produced a capital reduction account as well.

Part (c) was poorly answered as many candidates did not understand that it was only the nominal value of the shares which had changed rather than the total shares issued.

Part (d) was quite well answered within the net assets section. Although the reduction in non-current assets was often ignored and there was also often an incorrect calculation of the bank balance. In the equity section many candidates brought in the revised retained earnings from part (b) or recalculated a capital reduction balance which did not relate to part (b). Rarely did the balance on the share capital equal \$140000 less the answer to part (b). Almost invariably in the equity section there was both a share capital figure and the revised retained earnings from part (b), which emphasises the lack of candidate knowledge regarding the number of shares in issue and that a capital reduction scheme eliminates a debit balance on retained earnings.

Part (e) was not well answered as many candidates accepted the fact that Sudip was right to be unhappy which showed a lack of knowledge of the purpose of a capital reduction. Some candidates seemed to think that Sudip was a sole trader and did not relate their answer to the capital reduction scheme, as per the wording of the question, but just said, of course he is unhappy because his business is making a loss and his raw materials have got damp. Other candidates related their answer to the question but responded yes he is unhappy because the capital reduction scheme has caused the balance on retained earnings to become even worse/more negative. And many candidates thought he would be getting fewer dividends.

Part (f) was well answered although when recalculating the forecast income statement the major issues were the incorrect calculation of the cost of production and, as with **Question 1**, the poor layout of an income statement.

Part (g) was well answered using the candidates own figures from previous parts of the question.

Question 3

In Part (a) most candidates could calculate the price and total variances although the majority of candidates failed to flex their budgets and so the usage and efficiency variances were wrong. Some candidates did not state the direction of the variance or worked out their answers in percentages, kilos and hours.

In Part (b) candidates did not appear to have read the question carefully and related their answer to standard costing. Comments were often too generic without any reference to the specific variances calculated. Many candidates wrote about a marginal costing system and the effect on contribution. Common incorrect comments included that the workers were demotivated, that they would have more accidents than usual, that it was the fault of the management style and that the company would have to spend a lot on training.

In Part (c) there was a genuine lack of knowledge about costing methods and their application. Typical answers were FIFO, straight line etc. Most candidates knew about marginal and absorption costing but used one of these against each point. Some candidates knew about job, batch and process too but appeared to guess randomly, although more knew marginal for (i) than any of the others.

ACCOUNTING

Paper 9706/43

Problem Solving (Supplement)

Key messages:

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General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

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Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Comments on Specific Questions

Question 1

Part (a) (i) was generally well answered with the majority of candidates achieving most of the marks. Common errors included omitting the carriage inwards, not identifying the prime cost and omitting depreciation on machinery. A few candidates did not calculate the transfer cost and instead finished the manufacturing account at the production cost.

Part (a) (ii) was not well answered. A few candidates did not produce an account as required in the question. Many used the incorrect fraction to calculate the provisions, for example a common error to calculate the opening balance b/d was to use 40/100 of \$58 800.

Part (a) (iii) was well answered with the majority of candidates completing the income statement correctly. The most common error was to omit the increase in the provision for unrealised profit.

Part (b) was satisfactorily answered by the majority of candidates, although the most common error was the omission of the adjustment to the value of finished goods for the provision of unrealised profit.

Part (c) was well answered, although it is surprising that a few candidates referred to SSAP9.

Question 2

Part (a) was satisfactorily answered but in order to do the question, the candidates had to know the correct layout for the statement of cash flows. Clear and full workings were essential, especially for the calculation of the loss on the sale of non-current assets. It is important that candidates use the correct labels, for example the net cash flow from operating activities, and complete the statement down to the cash and cash equivalent balances at the start of the year and end of the year.

Part **(b)** was well answered with the majority of candidate able to distinguish between cash and profit. A few candidates gave long detailed answers considering the effect of credit transactions on profit; however a maximum of two marks was available for this question.

Part **(c)** was satisfactorily answered with the majority of candidates avoiding generic comments but giving relevant observations based on their ratio calculations. Most candidates made valid calculations and reasonable comments on the liquidity of the business; however the profitability was not answered as well. Only a few candidates calculated and commented on the return on capital employed. Candidates must also remember to write their answer in good form, i.e. as a percentage.

Part **(d)** was again satisfactorily answered although a few candidates gave advantages instead of disadvantages. The loan was better answered than the rights issue.

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 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!

Part **(a)** was well answered although a few candidates did not calculate the value of one unit of inventory and calculated the total value of all units. A common error was to include the commission cost.

Part **(b)** although a few candidates had included all the costs in part **(a)** they were able to use the mark-up on the cost to calculate the selling price.

Part **(c)** had very mixed responses. Some candidates knew that the sales units were different to the production units, whereas others simply used 1250 units for both the sales and the production calculations and omitted closing inventory. This figure was also used for the shipping, commission and administration cost calculations.

Part **(d)** was again variable in the responses. There were a few perfect answers and many correct approaches whereas some candidates did not know how to start this reconciliation.

Part **(e)** was well answered with many fully correct answers.

Part **(f)** was the least well answered part on the whole paper. Many candidates did not know how to answer this question and showed a lack of knowledge and understanding of sensitivity analysis.