

# ACCOUNTING

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

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

## **Key messages**

This paper required candidates to have a thorough understanding of use of the books of prime entry and the contents of each, the correction of errors using the suspense account, calculation of the share of partnership profits and calculation of the wages earned by a worker, together with the calculation of bonus payments in addition to other sections of the syllabus.

It is important to read through each item very carefully before selecting an option.

## **General comments**

The mean marks on this paper were 15. A number of questions proved easy, with more than 70% of candidates opting for the correct key. These were **1, 5, 17, 18** and **30**.

Some questions proved challenging and these have been considered here.

## **Comments on specific questions**

### **Question 4**

Candidates were required to identify which book of prime entry a set-off between the sales and purchases ledger is recorded. This will **always** take place in the general journal.

**Question 6**

This question required an understanding of the control account. Item 1 would have required a credit of \$2000 in the suspense account to correct it. Item 2 would have required a debit in the suspense account of \$3600 to correct it. The opening balance on the suspense account must therefore have been a credit of \$1600, the key **A**.

**Question 10**

When adjusting the gross profit, the fact that closing inventory had been overvalued by \$2500 meant that the gross profit had been overstated by this amount. The treatment of sales returns as purchases returns also meant the gross profit had been overstated, in this case by \$800 ( $\$400 \times 2$ ). Thus the correct gross profit was \$60 900, the key **A**.

**Question 15**

Many candidates found this question challenging. The question can best be illustrated by the following table:

	J \$000	H \$000	P \$000	Total \$000
Salary	5			5
Profit share	30	30	15	75
re-allocate	<u>-2.5</u>	<u>-2.5</u>	<u>5</u>	
<b>Key C</b>	<u>32.5</u>	<u>27.5</u>	<u>20</u>	<u>80</u>

**Question 23**

Candidates were required to calculate the payment earned by a worker. The calculation was 7 hours worked  $\times$  \$8.75 per hour, plus 25%  $\times$  [(10.5 – 7)  $\times$  \$8.75]. This gave  $\$61.25 + \$7.66 = \$\$68.91$ , the key **A**.

**Question 25**

Whenever the cost per unit remains unchanged as output increases then the cost must be a variable cost, which was the key, **D**.

# ACCOUNTING

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

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

## **Key messages**

This paper required candidates to have a thorough understanding of adjustments affecting the cash book balance when preparing a bank reconciliation statement, impact on the reserves of a limited company as a result of transactions taking place, the effect issuing shares or creation of reserves has on the total equity or elements of the total equity of a limited company, the causes of over or under-absorption of overheads in addition to other sections of the syllabus.

## **General comments**

The mean mark on the paper was 15. A number of questions appeared relatively easy from the data; **2, 3, 4,** and **11**, where more than 70% of candidates identified the correct option. Candidates found some questions challenging. These are discussed here.

## **Comments on specific questions**

### **Question 5**

Candidates were required to identify the correct figure for the bank to be entered in the statement of financial position. Of the three adjustments the first two should have been deducted from the given cash book balance. The third item was an error by the bank and should have been ignored. Thus the key was **B**.

**Question 15**

The vehicle introduced by the partner should have been ignored as it would have been credited to D's capital account.

Thus the balance on D's current account increased by \$15 000, being  $(\$90\,000 \times \frac{1}{2}) + (\$90\,000 \times \frac{1}{3}) - \$60\,000$ .

**Question 16**

Neither adjustment would have any effect on the revenue reserves of a limited company. The transfer to general reserves will come from the profit for the year. The issue of shares will affect the share capital, share premium and bank account, none of which are revenue reserves.

**Question 20**

Of the four transactions the only one which has no effect on the working capital is the purchasing of goods for resale on credit. As a result of this inventory and trade payables will both increase by the same amount. Thus, working capital will be the same both before and after the transaction takes place.

**Question 25**

The two situations where an under-absorption will occur are 2 and 3. In both cases insufficient overheads will be charged to the products produced.

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

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

## Key messages

This paper required candidates to have a thorough understanding of identification of errors which affect the control accounts and individual ledger account balances in addition to other sections of the syllabus.

It is important to read through each item very carefully before selecting an option.

## General comments

The mean mark on this paper was 18. A number of questions proved easy with more than 70% of candidates identifying the correct option. These were **4, 10, 11, 12, 16,** and **25**. Only two questions seemed to prove challenging and these are discussed here.

## Comments on specific questions

### **Question 13**

This considered errors which would be revealed when reconciling the control accounts with the sales and purchase ledgers. Items 1 and 3 would be revealed when the reconciliation took place, the key **C**. Item 2 would result in the same incorrect amount being entered in both the personal account and the control account.

**Question 23**

This concerned overhead absorption and why it is used by a business. The only reason from those listed was **D**, to establish a cost per unit of the product. Adding an element of cost to the product by absorbing overheads will allow the selling price of the product to be set.

# ACCOUNTING

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<p><b>Paper 9706/21</b> <b>Structured Questions</b></p>
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## Key messages

Candidates need to carefully read the detail of question requirements and answer the question asked.

Responses to narrative sections were varied. Frequently responses were limited and candidates would gain additional marks with greater development.

## General comments

There were frequent cases of candidates offering no response or a very limited response to cost and management accounting aspects of the syllabus, specifically for marginal costing applications. Candidates should remember that questions may be asked on any section of the syllabus.

## Comments on specific questions

### Question 1

The question involved ledger accounts within a partnership and subsequent assessment of performance.

- (a) This required the preparation of the capital account for a partnership with the introduction of a new partner. Most candidates correctly entered the bank and inventory values for the new partner. Some candidates however, did not use the correct ledger account terminology by making references to cash, capital and stock and there were also instances of a combined total being entered. The entries for goodwill were correctly made by many candidates. A few candidates reversed the goodwill entries. The most common errors were either to omit the loan for Alan or to include loan interest in the account. Some candidates did not show the balances brought down.
- (b) (i) Only a small number of candidates correctly stated what is meant by goodwill with few referring to it being the excess valuation of a whole business over the netbook value of its net assets. The most common responses were to state some of the factors which affect goodwill with reputation being the most prominent answer. There were also frequent responses to it being an intangible asset but with no subsequent development.
- (ii) There were many valid responses on factors which affect the value of goodwill with reputation and location being the most frequent. There were some responses on how goodwill could be created with references to partnership changes. These were not answering the question requirement.
- (c) Most candidates gained marks for the correct entries for drawings and interest on drawings. Some shared the residual profit equally rather than in the profit sharing ratio and many omitted the loan interest entry. Whilst many correctly calculated the interest on capital based on closing balances in **part (a)**, some based the calculation on the account totals in **part (a)**.
- (d) Candidates frequently reconstructed an appropriation account to calculate the profit for the year. Some candidates reversed the addition and subtraction of entries and some incorrectly included entries such as drawings and loan interest.
- (e) (i) Few candidates focussed on the requirement to comment on the changes in liquidity and many responses repeated the information given in the question without subsequent development of the consequences for the partnership. There were frequent references to the changes in liquid (acid test) ratio and trade receivables turnover but not to the implications of these such as being unable to pay short-term liabilities, credit control not working as well and the risk of bad debts.

- (ii) There were frequent references to improving credit control and the collection of trade receivables but again without any development. The better answers developed to include actions such as telephoning and chasing overdue accounts to improve credit control or collection of trade receivables improving by offering cash discounts and refusing further sales unless overdue debts were cleared. There were also valid responses such as partners introducing additional capital and frequent reference to selling surplus non-current assets. Some candidates did have a tendency to focus on one aspect only such as credit control and neglected other possible answers.

## Question 2

This question focussed on control accounts including a reconciliation statement.

- (a) Many candidates made the correct credit entries in the sales ledger control account. Some included incorrect terminology for the contra entry. Few candidates used the correct terminology of bank for the returned cheque and frequently entered with the incorrect terminology of dishonoured cheque. Some candidates made entries for items not relevant to the control account, these frequently being for the sales invoice \$960, which had been correctly entered in the sales journal and the cheque, \$670, which had been correctly entered in the cash book. The balance brought down was not shown by all candidates.
- (b) There were very few completely correct responses for the statement to reconcile the original sales ledger balances with the amended sales ledger control account balance. Some candidates did not attempt this section and those who did frequently gained marks for adding back the sales invoice or unpaid cheque. There were fewer correct entries for the deductions particularly for those needed for the cheque received of \$670 which had been entered on the debit side of the customer's ledger account as \$760.
- (c) Most candidates gained marks for deterrent against fraud and identification of errors aspects as advantages of maintaining sales ledger control accounts. Fewer candidates gained the third available mark for a total being provided for trade receivables and use for the final accounts. Some candidates duplicated their responses particularly for the errors aspect.
- (d) Many candidates correctly identified the types of errors, most frequently omission and commission. Some candidates incorrectly included errors of principle and reversal.

## Question 3

This question related to reserves and the preparation of a statement for changes in equity.

- (a) There were very few completely correct presentations for the statement for the changes in equity. Many candidates did not prepare the statement in the correct format and there were frequent cases of one column only being presented. Many of those who did present with the columns for equity and reserves did not include a total column. For those who did present in the correct format, the correct entries were usually made for the opening balances. Some entered the revaluation as \$750 000 or \$1 000 000 rather than the actual revaluation amount of \$250 000. The bonus issue of \$30 000 was frequently taken from retained earnings rather than share premium and revaluation reserve. The dividend was often based on the original number of shares of 1 200 000 rather than also including the bonus issue of 120 000 shares.



- (b) Most candidates correctly stated that the revaluation reserve is a capital reserve. Following this many candidates developed responses based on revenue reserves and in doing so did not answer the question. There were also incorrect responses stating that the revaluation reserve was needed to pay expenses. Some candidates did correctly refer to the revaluation reserve being created when a non-current asset is re-valued and a few only developed to there being no cash unless the asset was sold.
- (c) Many candidates correctly related to the issue of bonus shares as a use of the share premium account. Few candidates stated that the account could also be used for writing off preliminary expenses. Frequently candidates defined share premium, which was not answering the question.
- (d) Many candidates correctly distinguished between bonus issue and rights issue. Responses frequently related to there being no cash involved in bonus issue, whilst rights issue did generate cash for the business.

#### Question 4

This question concentrated on cost and management accounting, in this case, marginal costing.

- (a) Most candidates were aware of the break-even formula and many calculated the correct break-even quantity in units. Some did not correctly distinguish between fixed and variable costs in their calculations and often included some fixed costs as variable costs. The variable labour bonuses were frequently omitted from variable costs. When the final calculation was not a whole unit, many candidates rounded down rather than rounding up to the next whole unit.
- (b) While many candidates gained marks for correctly using their calculations from (a), there were some cases where candidates did not know the calculation for margin of safety. Some candidates presented a calculation for units only, omitting the question requirement to also show in revenue.
- (c) There were few completely correct answers and many candidates did not follow the requirements of the question to prepare an annual profit statement using marginal costing. There were also frequent cases of candidates not offering a response to this section. For those who followed marginal costing principles many did gain some marks for calculating profit for one week only, omitting to further develop for an annual profit. Others combined all costs without splitting into variable and fixed. Finally, some candidates did not identify their calculations.
- (d) Frequently there were no responses for this section. Some candidates gained marks for calculating the variable costs of \$25. Few, however, were able to then calculate a selling price based on a 20 per cent contribution to sales ratio. Many candidates added 20 per cent to the variable costs for this calculation.
- (e) There were frequent cases of no responses or responses with few marks. Some candidates did follow the requirements of the question. There were frequent cases of calculations for one product only, rather for both products. For those who did calculate for both products, frequently this would be for one week only, rather than the total annual profit as required by the question. Many candidates did not identify their calculations.
- (f) Most candidates who attempted this section did gain a decision mark coupled with some marks for subsequent development supporting the decision, however, few considered the implications for the opposite viewpoint.
- (g) Frequently there was confusion between physical inventory movement and inventory valuation. Many developed responses based on the first in first out method of inventory valuation, rather than the average cost method required in the question. Frequently some responses lacked the development. Many candidates stated the time-consuming aspect of the average cost method as a disadvantage, but few developed this point.

# ACCOUNTING

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<p><b>Paper 9706/22</b> <b>Structured Question</b></p>
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## **Key messages**

There was often a lack of clear workings in computational questions and a lack of structure in preparing financial statements. Marks will always be awarded for valid workings.

In written questions, candidates should make sure that they provide sufficient development to their answers.

## **General comments**

Candidates need to use the correct presentation for their answers. Weaker responses to narrative questions are often vague.

## **Comments on specific questions**

### **Question 1**

The question related to the financial statements of a partnership and sources of finance to fund the purchase of non-current assets.

- (a) The task required candidates to calculate the profit before appropriation before and after the drawing up of a formal partnership agreement. Few candidates were awarded the full three marks for this task mostly because they did not recognise that in the absence of a formal agreement, a partner's loan attracts interest at a rate of 5%.
- (b) Preparation of the partnership appropriation account was well answered by well-prepared candidates. However many candidates did not realise that in the absence of a formal partnership agreement, there would be no interest on drawings, no interest on capital and no partner's salary. Furthermore, the resultant profit for the nine months would be split equally and not in the new profit sharing ratio.
- (c) Most candidates prepared the partners' current accounts by correctly accounting for their own figures from the appropriation account. A common mistake was to omit accounting for Tom's loan interest in the current account.
- (d) Most candidates were able to differentiate between capital expenditure and revenue expenditure, though candidates were often too vague with their responses.
- (e) Whilst most candidates were able to identify one accounting concept relating to depreciation, many had difficulty in offering more than a very vague and basic explanation.

- (f) (i) A large number of candidates offered two valid sources of finance, usually bank loan and introduction of a new partner. Some candidates offered inappropriate sources that would be suitable for a limited company, for example, issue of a debenture or issue of shares. Candidates must be careful to relate their answer to the scenario in the question.
- (ii) The majority of candidates who gave two viable sources of finance in the previous task were able to recommend the most suitable option with justification.

## Question 2

The question required candidates to prepare a statement of changes in equity before and after a bonus issue of shares.

- (a) Well-prepared candidates produced a totally correct statement of changes in equity. The most common error was not opening a revaluation reserve and process the revaluation through the general reserve or through retained earnings. Some candidates did not answer this question well despite processing correct figures. The statement of changes in equity is part of the financial statements; candidates who prefixed entries with dates rather than a correct label were not rewarded.
- (b) The statement of changes in equity after the bonus issue of shares proved more challenging to candidates. Having been informed in the question that the company policy is to leave reserves in their most flexible form, the first account to be cleared must be the share premium account with the residue being deducted from the revaluation reserve.
- (c) The task required candidates to state two differences between ordinary shares and debentures. Whilst most candidates answered the task very well, there were also some very vague and disorganised answers. Candidates must be very focussed on differences when answering a question of this nature.
- (d) There were some very vague responses to stating the significance of (2018–2020) after the debenture. Many candidates stated that this referred to the period of interest accrual, some actually calculated the interest. The answer is simply that this is the time period during which the debenture must be repaid.
- (e) Most candidates were able to state that debentures do not appear in the statement of changes in equity because they are a non-current liability, not part of the equity.

## Question 3

The question focussed on journal entries and the suspense account.

- (a) (i) Most candidates offered a suitable use of the suspense account.
- (ii) Responses to the task requiring candidates to state three advantages to a business of maintaining a sales ledger control account were not satisfactory. Candidates should have developed the basic points raised. In other words, 'reduces fraud' was insufficient unless developed by 'as a result of segregation of duties'.
- (b) In general the standard of journal entries was very mixed with some evidence that less well-prepared candidates do not have a good double entry understanding. It is also important to note that the detail in a journal must be an actual account name – for example, it is not sufficient to refer to the first debit entry as 'sales journal' the account to be debited is 'Sales'.
- (c) In assessing the effect of the journal entries on the profit for the year, the biggest problem was a lack of clarity in candidates' responses. It was often difficult to tell whether the answer referred to the effect before the correction was made or after.

#### Question 4

The question concentrated on cost and management accounting, in this case, marginal costing and budgetary control.

- (a) (i)** Most candidates were able to gain the available two marks in calculating the unit contribution for the two products.
- (ii)** Most candidates were able to calculate the direct labour hours required to meet budgeted production.
- (b)** Calculation of the maximum profit that could be achieved from the total direct labour hours available was less well answered. A significant number of candidates appeared to be unaware of the technique involved where a limiting factor was involved. A number of candidates calculated only the profit per unit and many were unable to correctly work out the fixed costs.
- (c) (i)** Most candidates did not perform well in evaluating the two given options to achieve the budgeted production. Evaluation involves assessing each option and commenting on the advantages and disadvantages of each. Too many candidates offered only a basic comment on the financial implications, totally ignoring the possible effect on staff motivation, quality issues, delivery problems etc.
- (ii)** Possibly as a result of the difficulties in evaluating the options, recommendations as to which option to choose were equally unsatisfactory with only a few candidates offering sufficient justification to gain more than one basic mark.
- (d)(i) and (ii)** Responses were generally good with most candidates offering valid advantages and disadvantages of budgetary control.

# ACCOUNTING

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<p><b>Paper 9706/23</b> <b>Structured Questions</b></p>
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## **Key messages**

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

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

## **General comments**

Candidates need to focus on the presentation of answers of financial accounting questions. Candidates must practice the preparation of income statements and statements of financial position in order to produce acceptable statements.

There was clear evidence that some candidates did not read the questions carefully. A significant number of candidates picked up incorrect or incomplete information as a result of this very important issue.

The performance of many candidates on computational was good.

## **Comments on specific questions**

### **Question 1**

The question concerned a sole trader who did not keep proper books of account. Candidates were required to prepare an income statement and a statement of financial position.

- (a) Preparation of the income statement was generally well completed in stronger responses. The most common errors by other candidates were incorrect depreciation and an incorrect calculation of sales revenue. Many candidates did not use correct terminology – net profit is not an acceptable label, the correct terminology is profit for the year.
- (b) Whilst stronger responses performed well on preparation of the statement of financial position, this area of incomplete records proved relatively challenging for weaker candidates. Inevitably, calculation will be needed for closing inventory, trade receivables, trade payables and prepayments. The nature and operation of control accounts in these instances proves helpful.
- (c) Some candidates tended to offer generic reasons rather than answer the specific question that related to Maneesh's bank overdraft.
- (d) The question required candidates to advise Maneesh whether to enter into a partnership with his brother or accept a loan. Most candidates answered this question well though some responses lacked sufficient development to gain more credit.
- (e) The question required knowledge of items that would affect the partnership appropriation account. Whilst many candidates were able to state those items that would affect the appropriation account, only few candidates gave relevant answers to the items that would not.

## Question 2

The question assessed candidates' knowledge of partnership accounts on the retirement of a partner.

- (a) (i) Most candidates correctly identified net realisable value as selling price less costs to completion less selling expenses.
- (ii) A number of candidates were able to correctly identify one reason why assets are revalued on the change of a partnership, but few were able to identify both reasons.
- (iii) The most popular answers were when a new partner enters and when a partner retires.
- (b) Preparation of the partners' capital accounts was done well by a significant number of candidates. Vast majority of candidates dealt with the goodwill adjustment correctly.
- (c) Responses to assessing the impact of Alice's retirement on the partnership statement of financial position were very mixed. Well prepared candidates were able to identify four different points, though some candidates could not relate their answers to the statement of financial position highlighting the need to read questions very carefully.

## Question 3

This question required candidates to prepare ledger accounts to record the issue of shares, an area clearly identified in the syllabus (1.4.4).

- (a) Only few candidates were clearly prepared for this question. Most offered no response and some prepared journal entries when the question asked for ledger accounts.
- (b) Most candidates were able to identify at least one difference between ordinary shares and preference shares and many gained full marks for two differences.
- (c) The majority of candidates correctly named either the revaluation reserve or share premium as capital reserves though some offered the general reserve, a revenue reserve.

## Question 4

The question concentrated on cost and management accounting, in this case, absorption costing. It was clear that whilst most candidates were able to produce reasonable computational answers, there is still a lack of knowledge and understanding of the terms used.

- (a) Overhead apportionment was very well answered by most candidates with a significant number gaining full marks.
- (b) Calculation of the overhead absorption rate was very well answered
- (c) Candidates who correctly answered the previous two parts of this question were generally then able to apply the figures to calculate the total unit cost for each product.
- (d) Whilst most candidates were able to correctly calculate the figures for over and under absorption, some did not state whether it was over or under.
- (e) While candidates know what allocation of overheads is, many did not express their response sufficiently well to gain credit.
- (f) Stating the meaning of overhead costs produced very mixed responses. A significant number of candidates stated that they were fixed costs when the required answer was the fact that they are indirect costs that cannot be traced directly to a product, service or department.
- (g) Explanation of why overhead costs are re-apportioned from service centres was generally well answered.

- (h) Only very well prepared candidates were able to gain full credit for offering advice as to whether Rajesh should change from absorption costing to marginal costing. Too often candidates simply listed advantages of marginal costing with little or no justification.

# ACCOUNTING

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<p><b>Paper 9706/31</b> <b>Structured Questions</b></p>
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## General comments

Overall performance on this paper was reasonable. Candidates answered numerical aspects of questions much better than the written parts.

## Comments on specific questions

### Question 1

- (a) Most candidates produced a reasonable income and expenditure account. The most common error was an incorrect calculation of the profit on the sale of the CDs. Some candidates used incorrect labelling.
- (b) This was well answered with most candidates correctly calculating the required bank balance. Most were then able to correctly calculate the loan. Even candidates who could not calculate the bank balance were generally able to calculate the loan.
- (c) Overall candidates did not perform well on this question. Few candidates answered the question asked which required a consideration of future cash flows.
- (d) Many candidates did not address advantages and disadvantages as required and consequently did not address the question requirements.

### Question 2

- (a) Most candidates identify a correct difference between statement of cash flows and a cash budget. Many candidates simply stated the difference without developing it further even when the question required for an explanation.
- (b) Overall performance was reasonable with a limited number of fully correct statements. Common errors were made with the working capital adjustments and the calculation of the purchase of the non-current assets. On weaker responses, presentation of the statement was often lacking. Many candidates were not able to attempt to reconcile the change in cash and cash equivalents despite being given the opening and closing balances.
- (c) The explanations were generally inadequate with a large number of candidates merely stating that the cash position was weak as there was a negative balance at the end. Reference to the statement was required to identify, for example, the purchase of the non-current assets and the dividend payment.
- (d) Candidates were generally not able to account correctly for the additions and disposals within the note.
- (e) This was well answered with nearly all candidates advising the directors correctly and most providing appropriate justification.



### Question 3

- (a) This was very well answered by most candidates.
- (b) Responses were unsatisfactory with few candidates providing reasons for the differences in the ratios as required. Merely stating that the ratio of one company was higher than the other was not addressing the question.
- (c) This was answered well and nearly all candidates provided an investment decision along with appropriate reasons.

### Question 4

- (a) Most candidates provided a reasonable explanation of rights issue.
- (b) The statement was generally well prepared by many candidates. Errors were often made in the profit calculation resulting in an incorrect retained earnings adjustment.
- (c) Most candidates were aware that the proposed dividend would be treated as a note in the financial statements.
- (d) Very few candidates were able to explain the required difference with some stating that 'an adjusting event is adjusted and a non-adjusting event is not adjusted.' However, most candidates were then able to explain the correct treatment for the given scenario.
- (e) Some candidates answered this correctly but the majority demonstrated a lack of understanding of this topic.

### Question 5

- (a) Most candidates provided an appropriate explanation of standard costing.
- (b) There were relatively few candidates who were able to calculate all four variances correctly but most did calculate at least two correctly. Generally, the answers did indicate an understanding of the topic.
- (c) The analysis of the reasons was not well answered with many candidates stating, for example, that 'the material price was higher'. An analysis question requires the candidate to provide possible reasons for this higher price.
- (d) There were a limited number of correct profit calculations but the majority were unable to account correctly for the overheads.
- (e) Most candidates omitted the control of overheads from their answer.

### Question 6

- (a) Most candidates calculated the cash flows correctly for the first two years but then made errors in their year 3 and year 4 calculations.
- (b) This was very well answered by most candidates. Candidates received credit for using the discounting factors correctly on the brought forward figures.
- (c) This was also well answered by most candidates.
- (d) Most candidates did state an appropriate advantage and disadvantage of using net present value method for investment appraisal.
- (e) Candidates generally did provide acceptable explanations with regard to payback.
- (f) Some candidates stated financial rather than the required non-financial factors but overall the standard of responses was reasonable.

# ACCOUNTING

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<p><b>Paper 9706/32</b> <b>Structured Questions</b></p>
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## General comments

The majority of candidates were able to access the paper and attempt each question with no apparent timing issues. It is important to show workings and to focus on the question requirement while answering the question.

Candidates should work on improving their written answers by arguing both sides of a scenario before making a judgement and not merely listing points, i.e. where two businesses or options are available and a decision is required as to which business is better or worse, (as required in **Question 3(b)**) or which option provides a higher or lower profit etc. (as required in **Question 2(c)**). Answers should also be reviewed for reasonableness, for example, is a selling price below purchase price likely? This paper also illustrated that questions can also be asked which are totally narrative in nature (as shown by **Question 4**). Comments within these questions should be supported by numerical data as much as possible.

## Comments on specific questions

### Question 1

**Part (a)** was generally quite well done, although a few candidates only focused on either subscriptions or donations rather than make a comparison between the two. Some commented on the accounting treatment of each, for example that subscriptions could be prepaid.

**Part (b)** was again done quite well depending on whether workings were shown. It was important that candidates should show all workings; especially for the calculations of the expenses within **part (b)** and the shop trading account. Generally the layout was known, although a common error was to record the shop loss as a net loss. It was important that candidates clearly identified the cost of sales, the gross profit and the shop loss.

Other errors included adjusting each expense only for one year, not adjusting the cost of sales for both inventories. It is important that candidates should avoid using acronyms for the labels, e.g. GP for gross profit, COS for cost of sales, or referring to the shop loss as a deficit.

Answers to **part (c)** varied. Most candidates mentioned reducing expenses but then listed several expenses such as staff wages and cheaper suppliers, rather than giving another method such as reducing or stopping the members' discount. Common errors also included raising prices or advertising.

**Part (d)** was generally well done. The most common error was to base the 50% on the shop loss.

### Question 2

**Parts (a)(i)** and **(ii)** were usually well answered and laid out well. Once again in both the manufacturing account and income statement there should be no acronyms of the labels, for example the prime cost should not be PC, the transfer price should not be recorded as TP and gross profit should not be GP. Full labels were required for the cost of raw materials consumed, prime cost, cost of production/manufacture and the transfer price. The actual income statement was well answered. Common errors were to use the cost of production figure from the manufacturing account rather than the transfer price with the factory profit and to record a net profit rather than a profit for the year.

In **part (b)** candidates either knew what was required and did fairly well, or had no idea. The answer had to start with the profit from **part (a)(ii)**. Each figure had to be in the correct direction. The most common error

was to multiply the \$6575 by 25/100 to achieve the provision for unrealised profit rather than multiply by 25/125 to achieve a correct answer of \$1315.

**Part (c)** was answered well. Most candidates gave a recommendation on whether to proceed with option 1 or option 2 backed by relevant comments.

### Question 3

Performance on **part (a)** varied. Most candidates attempted to calculate the goodwill within the statement of financial position, although few recorded it as an intangible non-current asset. The cash and cash equivalents was often split between the current assets as \$7100 and current liabilities as \$70 000. Within the equity section the main errors were to include the debentures as current liabilities and to not identify the share premium on the ordinary shares.

Performance on **part (b)** also varied. Most candidates correctly calculated the annual profit with the nephew as manager as \$21 600. However few candidates calculated the annual income after sales as \$19 820 as either an item of income was omitted, (usually debenture interest), \$250 000 was not used for dividends or there was an error in the calculation of bank interest. Although few candidates commented that both options gave a return lower than the previous level of drawings and that the future value of shares may fall in value, other valid comments were given, such as Husna no longer would have the day to day worries of running a business. The majority of candidates gave a relevant decision based on their comments.

### Question 4

In **part (a)** most candidates were able to provide valid points on the role of an auditor with the main errors being comments on the prevention of fraud or the preparation of the financial statements.

**Part (b)** was usually not well answered as many candidates thought a qualified audit report was a good result with no errors within the accounts and which had been properly presented. Obviously the opposite is the correct answer.

**Part (c)** was answered well with the majority of candidates referring to IAS 2 and the valuation of inventory. Further their comments were supported by numerical calculations. Although many candidates did not state the final adjustment to closing inventory of \$450 000, many were able to calculate the net realisable value of \$550 000 after adjusting for the \$200 000. Many candidates correctly referred to the accounting concept of prudence to support the adjustment to profit.

**Part (d)** were answered quite well with the majority of candidates understanding what true and fair meant and that with shareholder confidence in the accounts and potential willingness to invest more, the share prices might increase. Unfortunately few candidates realised that the report did not present a complete picture of the business performance to the shareholders, for example non-financial factors are not included.

**Part (e)** was generally answered well with the majority of candidates stating that Aamir should not have signed the audit report, which is now invalid, as he was unqualified.

### Question 5

**Part (a)** was usually well answered with the majority of candidates recognising ABC, although a few candidates stated absorption costing.

**Part (b)** was well answered with most candidates calculating the correct unit cost of \$1.58 per unit.

Performance of candidates on **part (c)** varied. Some candidates were able to break the cost of \$1.58 down into the relevant cost drivers for a cost per unit, for example machine set up costs, whereas other candidates started the calculations correctly but often finished at the cost per day instead of per unit. For example stating that the machine set up costs were \$8 per day ( $2000 / (5 \times 50)$ ) and not  $\$8/200 = \$0.04$  per unit.

**Part (d)** was generally answered well. After stating both the benefits and drawbacks of ABC candidates were able to give a decision on whether Samir should or should not ask for the analysis. Candidates should remember that full marks could not be achieved without a balanced answer.

### Question 6

**Parts (a) (i) and (ii)** were done quite well. In **part (a) (i)** most candidates understood the difference between a cash budget and a statement of cash flow. However it was important that a comparison was made. In **part (ii)** many candidates knew the benefits of budgeting but now had to relate them to cash, for example identifying future cash flow problems to avoid overdrafts.

Performance on **part (b)** had varied. Although the majority of candidates could calculate the sales and cash discounts for January and February, many could not calculate them for March. This had an impact on the calculation of the rate of cash discount in **part (iii)**.

In **part (c)** candidates either knew the layout of the trade receivables budget and achieved full marks or did not know the correct layout for the trade receivables budget at all. In the latter case the receipts were often recorded as positive and treated as they would be in a cash budget and the sales figures were either omitted from the budget or added to the receipts. The majority of candidates knew that the closing balance of one month became the opening the opening balance of the next month.

**Part (d)** was answered well for the increase in cash needed of \$16 600 but not so well for the increase in sales.

**Part (e)** was answered well with the majority of candidates providing valid answers, for example using a lease instead of buying non-current assets or finding cheaper suppliers.

# ACCOUNTING

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<p>Paper 9706/33 Structured Questions</p>
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Candidates should work on improving their written answers by arguing both sides of a scenario before making a judgement and not merely listing points, i.e. where two businesses or options are available and a decision is required as to which business is better or worse, (as required in **Question 4(c)**) or which option provides a higher or lower profit etc. Answers should also be reviewed for reasonableness, for example, is a selling price below purchase price likely? (as required by **Question 1(d)**). This paper also illustrated that questions can also be asked which are predominately prose in nature (as shown by **Question 3**). Comments within these questions should be supported by numerical data as much as possible.

## Comments on specific questions

### Question 1

**Part (a)** was generally well done. The majority of candidates knew the layout of the manufacturing account, although a common error was to include carriage inwards with the expenses rather than adjust the purchases of raw materials. Direct wages should be included within the calculation of prime cost. Other common errors were to omit inventory work in progress and to stop the account at the factory cost of finished goods before the factory profit of 20%.

**Part (b)** was again done well. Generally the layout was known, although a common error was to record the profit for the year as a net profit. Candidates should avoid using acronyms for the labels, e.g. GP for gross profit, COS for cost of sales. Many candidates correctly included the factory profit within the income statement but fewer candidates attempted an adjustment for the increase in provision for unrealised profit.

Performance on **part (c)** varied. The majority of candidates knew and understood about transferring the transfer price to the income statement and the resulting effect on factory profit and unrealised profit.

**Part (d)** was generally well done. Candidates should always support and justify the decision. Candidates calculated factory cost and cost of transfer based on their own figures from **part (a)** and some candidates also commented on reliability and quality.

## Question 2

**Part (a)** was usually well answered as there were plenty of relevant comments which could be made. The most common answers included comments on providing facilities as opposed to making profit.

In **part (b)** it was encouraging to see that the majority of candidates produced workings for the subscriptions and depreciation calculations. A common error was to just state the subscriptions as the amount received without making adjustments for prepaid or accrued amounts. Other candidates split the match sales of \$6400 in income and the awards to players of \$1450 in expenses. The correct label of surplus of income over expenditure was required and not profit for the year.

**Part (c)** was well answered. The majority of candidates recorded the current assets and current liabilities correctly. Full workings were required for the equipment at net book value. The only confusion that some candidates had was where to place the life membership fund and the clubhouse fund.

Performance on **part (d)** varied. Some candidates did not know what life membership was.

## Question 3

**Part (a)** was generally well answered as the majority of candidates knew what stewardship was with regards, for example the management of resources.

**Part (b)** was generally well answered as the majority of candidates knew what an end of year audit was. No marks were awarded for the investigation of fraud or the preparation of the accounts.

In **part (c)** candidates either knew whether the audit report would be qualified or not.

In **part (d) (i)** the majority of candidates were able to state the effect of the adjustments on profit. It is however further recommended that candidates should support their answers with numerical data as much as possible, for example the impairment loss of \$180 000, the decrease in inventory value of \$42 000 and the bad debt recovered of \$60 750, as well as relate to the effect on actual financial statements.

**Part (d) (ii)** was generally well answered with the figures from **part (d) (ii)**.

**Part (e)** produced variable answers depending whether candidates knew what a qualified audit report was or not, for example an audit report which does not present a true and fair view of the financial statements.

## Question 4

**Part (a) (i)** was generally well answered.

**Part (a) (ii)** was usually well answered. Very few candidates recorded the entries on the incorrect side. The most common errors were the omission of the bank charges, the commission and the irrecoverable debt. Full workings were required for the calculation of the closing inventory and candidates had to remember to bring the balance down to be awarded the marks.

**Part (a) (ii)** was answered well. Although a few candidates brought a balance down and incorrectly labelled the final bank figure.

**Part (b)** was well answered with the majority of candidates correctly identifying the amount of the reduction of profit.

**Part (c)** was answered well with the majority of candidates describing the benefits and/or the disadvantages of entering a partnership as well as a final decision for Hamid and Patel.

### Question 5

**Part (a)** was usually well answered with the majority of candidates producing the correct layout for the calculation of the net present value for both options. The main error was to omit years 3 and 4 for option 2.

**Part (b)** was well answered with the majority of candidates knowing that selecting an option on a solely financial basis could be based on whether the NPV was positive and higher than the other option.

**Part (c)** had varied answers dependent if the candidate knew the correct approach. Some candidates divided the \$225 000 by 2 to calculate an average investment.

**Part (d)** had a varied response. The majority of candidates calculated an average profit but forgot to adjust profit for \$50 000 and \$150 000. In option 2 a further common error was to incorrectly calculate the average profit by dividing by 2 years instead of by 4 years. When calculating average investment many candidates used the investment from **part (c)**. Some candidates completely omitted \$175 000 and \$75 000 from the calculations.

**Part (e)** was generally well answered with candidates analysing the benefits of NPV, for example taking the time value of money into consideration as well as making a final decision.

### Question 6

**Part (a)** was done quite well. Most candidates knew that a master budget was the consolidation of other budgets in order to prepare the budgeted financial statements.

Performance on **part (b)** varied. Different layouts were used and accepted for the production budget and so the majority of candidates were able to calculate monthly production levels. Majority of candidates knew that the closing balance of one month became the opening balance of the next month.

In **part (c)** again the majority of candidates knew that the closing balance of one month became the opening balance of the next month. There was an improvement in the layout of the cash budget. The most common error was the incorrect calculation of the credit purchases.

**Part (d)** was answered well with the majority of candidates suggesting methods to improve profitability, for example postponing the purchase of the equipment of \$6000.

**Part (e)** was well answered with the majority of candidates justifying the need and benefits of a loan. The correct advice was then given.