ACCOUNTING

Paper 0452/01
Multiple Choice

Question Number	*Key*	*Question Number*	*Key*
1	**C**	21	**A**
2	**C**	22	**A**
3	**A**	23	**D**
4	**B**	24	**D**
5	**C**	25	**C**
6	**A**	26	**A**
7	**C**	27	**B**
8	**B**	28	**C**
9	**A**	29	**A**
10	**B**	30	**B**
11	**B**	31	**B**
12	**B**	32	**B**
13	**A**	33	**B**
14	**C**	34	**D**
15	**D**	35	**D**
16	**A**	36	**A**
17	**B**	37	**D**
18	**D**	38	**D**
19	**A**	39	**C**
20	**C**	40	**B**

General comments

This was the third sitting of this paper. It was taken by 2254 candidates (a decrease of 6.8% compared to June 2001).

The mean mark was 26.3 out of 40 (June 2001, 24.9). Standard deviation was 7.8 (June 2001, 7.3).

Judged against accessibility limits of 50% - 90%, no item was too easy and 8 items were too difficult.

All items were within the Core Syllabus.

Comments on specific items

Item 6

Only 30% correctly chose **A**; 42% chose **B**, which included the trader's private house insurance in the business's expenses charged in the Profit and Loss Account.

Item 8

50% chose **D**, thinking that profit on a transaction is realised when payment is received rather than when the obligation to pay arises. Only 36% correctly chose **B** (6 March), when goods and invoice were sent.

Item 11

51% correctly chose **B**, but 37% selected **D**, not appreciating that no cash discount deduction applied.

Item 20

43% identified the key as **C**, but 47% did not appreciate that if $100 is wrongly debited to an account, the credit side total of the trial balance must be $200 less than the debit side.

Item 23

Only 47% correctly chose **D**, with 25% thinking that the debtor's account should be debited with $240 instead of being credited.

Item 24

Only 25% correctly chose **D**, the selection of other options indicating an element of guess-work and that many did not realise that the cash book balance was $850 credit.

Item 30

Whilst 39% identified the key as **B**, 25% chose **D** (the lower of selling price and net realisable value), which appeared to be a positive distractor.

Item 33

Only 46% chose the correct answer, **B**. 39% did not deduct the partner's salary of $20,000 from the net profit, but simply added it to his half share, wrongly selecting **C**.

Item 34

48% thought that a partner's interest on drawings appears on the debit side of the Profit and Loss Appropriation Account, wrongly choosing **C**. Only 43% chose the key, **D**.

Paper 0452/02
Paper 2

General comments

Overall performance was good, some candidates from a majority of Centres submitting excellent scripts. Most candidates obtained full marks for **Questions 2 (a)** and **5 (a)**, but quite serious weaknesses were apparent in the handling by many of **Question 2 (c)** and **(d)** and **Question 3**; answers to **Question 4 (a)** were also often very limited.

A majority of candidates attempted all the questions. There was no evidence of candidates having insufficient time in which to complete the paper.

Comments on specific questions

Question 1

This was generally well answered and consisted of a series of short answer questions, dealt with below.

(a) Most candidates knew that the cost of goods sold (or cost of sales) is deducted from sales to give gross profit.

(b) Very few had difficulty in naming the Profit and Loss Account as the final account to which the balance of the Discount Allowed Account is transferred at the financial year end.

(c) Whilst a majority correctly named two types of error which do not affect a trial balance's agreement (with errors of omission and principle popular choices), some did not attempt this part or were only able to state one type.

(d) The difference between the purchase price of a business and the value of its net assets is the *goodwill* it commands. A range of incorrect answers included "Depreciation", "Liabilities" and "Net profit".

(e) A majority identified the Profit and Loss Account as the final account showing interest on a partner's loan and the Appropriation Account as the final account showing interest on partners' capital and drawings.

(f) This produced a mixed response. Most understood the concept in question to be Prudence (or Conservatism), but some other offerings included "Realisation", "Matching" and "Business Entity".

(g) Many candidates obtained full marks for calculating the rate of stock turnover as:

$$\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{\$200000}{\$20000} = 10 \text{ times}$$

Others however were unable to calculate the average stock correctly or inverted their attempt to produce the unlikely answer of 0.1.

(h) Most candidates correctly named two methods of providing for fixed assets' depreciation, although a significant minority stated "Reducing method" instead of "*Reducing Balance* method".

(i) There was some confusion between the quick and current ratios, but a majority knew that the quick ratio is : $\frac{\text{Current assets - Stock}}{\text{Current liabilities}}$

Question 2

(a) Required to calculate four amounts missing from an invoice, a large majority correctly entered these as:

(i) \$1000 **(ii)** \$1500 **(iii)** \$300 **(iv)** \$1200

(b) Most candidates knew that invoice details are entered in the Sales Journal of the seller (Agrotech) and the Purchases Journal of the buyer (Chalk Farm). However, there was sometimes surprising confusion between prime entry books and ledger accounts.

(c) This part was not well handled, a majority failing to obtain the three marks available. Calculation of the net amount shown on the credit note is:

	$
Price of one tyre, before deducting trade discount	125
Less trade discount at 20%	25
Net amount	100

Many attempted to re-calculate the invoice total, producing a variety of unnecessarily complicated responses. These failings may be explained by careless reading of the question or by unfamiliarity with a basic topic; overall the performance was very disappointing.

(d) Many candidates also failed to produce a ledger account correctly, often confusing purchases with sales, reversing the sides of entries, inventing "balances" (brought or carried down), failing to use correct account descriptions and omitting dates. The correct ("T" form) ledger account is given below; the running balance format was also acceptable.

Agrotech account

2002		$	2002		$
17 April	Purchases Returns (or Returns Outwards)	100	6 April	Purchases	1200
24 April	Bank	1067			
	Discount received (or Cash discount)	33			
		1200			1200

Ledger account preparation is a basic syllabus topic and these attempts were very disappointing overall.

Question 3

Writing up a petty cash book brought variable responses.

(i) A majority entered transactions into the petty cash book and showed the necessary analysis correctly. The most common error was to treat "Envelopes" as Postage rather than stationery. In a few cases only the analysis figures were given, with no entries in the "Detail" or "Payments" columns.

(ii) Required to record restoration of the imprest on 31 March, only a small minority handled this correctly. As total expenses were $80, this is the amount to be debited in the "Receipts" column (from either Cash or Bank).

(iii) Following from this, the balance is $100 and this is carried down to 1 April 2002 as shown below. (N.B. Analysis column details are not shown.)

Receipts	Date	Details	Payments	
$			$	
100	1 March	Balance b/d		
			80	(total for March 2002)
80	31 March	Cash/Bank		
		Balance c/d	100	
180			180	
100	1 April	Balance b/d		

Question 4

(a) Attempts to explain why some transactions are recorded in the Journal before being entered in ledger accounts were generally poor. The Journal is a prime entry book used for those transactions which do not fall into the categories of purchases, sales and cash and bank items; these non-routine matters include the correction of errors and buying fixed assets on credit. Advantages of using the Journal include reducing the risk of items being omitted, whilst narratives provide necessary explanation or information.

Many candidates seemed unaware of these aspects, often confusing the Journal with Sales and Purchases Journals and with only a minority providing explanations earning full marks.

(b) Preparation of Journal entries to correct certain errors was variable. Many candidates dealt well with items 1 and 2, but common errors in dealing with item 3 were to show the debit entry as "Cash Book" or "Cash" instead of Bank and failing to double the amount involved to $600. The Journal entries required are set out below; the narratives given are suggestions rather than prescriptive statements and marking allowed for acceptable variations.

	Details	DR $	CR $
1.	Motor Vehicles	5000	
	Ace Motors		5000
	Purchase of motor vehicle on credit from Ace Motors for $5000, originally omitted from the business books.		
	Machinery repairs	1500	
2.	Machinery		1500
	Machinery repairs $1500 debited in error to Machinery account, now corrected.		
	Bank		
	Smith	600	
3.	Cheque for $300 from Smith credited to Bank and debited in Smith's account in error, now corrected.		600

(c)(i) A majority correctly identified the error as an error of principle.

(ii) A good number of candidates explained that the understating of expenses has the effect of overstating net profit and also overstating fixed asset values; thus the treating of revenue expenditure as capital expenditure could cause the final accounts to be inaccurate and misleading. A few also mentioned that, due to the inflated value of machinery, an excessive depreciation charge would also result. A substantial minority limited their remarks to stating either that if the error was not corrected the trial balance would not balance or that "the accounts would be wrong" in some unspecified way.

Question 5

(a) A large majority correctly made the required calculations to gain full marks, viz:

		Jules	Jim
(i)	Gross profit	\$40000	\$60000
(ii)	G.P. as a percentage of sales	40%	30%
(iii)	Net profit	\$20000	\$30000
(iv)	N.P. as a percentage of sales	20%	15%

(b) Better candidates used their answers from **(a)** to make specific comparisons and pointed out that the profitability ratios were the better measure of performance, thus showing Jules to be the most successful. Others took the more limited view that gross and net profit figures favoured Jim's business, as did his higher sales. More comprehensive answers also mentioned that Jules had better control of expenses than Jim. Overall, responses were reasonable with a fair number gaining full marks.

(c)(i) The majority correctly calculated the current ratios as:

Jules 2:1 Jim 0.75:1

Marks were lost by candidates who did not express their answers as *ratios*.

(ii) Most candidates recognised that Jules had the stronger working capital position, with better answers pointing out the vulnerability of Jim's business due to possible liquidity problems.

Paper 0452/03
Paper 3

General comments

This structured examination paper was designed to discriminate between candidates obtaining Grades A to C. Only those candidates who were expected to obtain a Grade C or higher should have been entered for this paper. As usual, all the questions were compulsory and were based mainly on the Extended Curriculum.

The paper was designed to provide candidates with the opportunity to earn some relatively easy marks. However, it was also structured in such as way that candidates had to demonstrate further knowledge and understanding to earn other marks.

Some examination papers were of a very high standard, demonstrating the candidates' thorough knowledge of the accounting requirements of the Extended Curriculum. It was disappointing to find that some candidates did not appear to have an adequate knowledge of basic accounting principles. These candidates would have benefited from further study before attempting this examination paper.

Once again, it must be emphasised that candidates must not only learn *how* to prepare the various accounts and financial statements, but also *why* certain accounting procedures are followed. It was evident from the examination papers that whilst many candidates could prepare various accounts and financial statements, they found it difficult to define accounting terms, explain the entries in an account, and offer suggestions on suitable courses of action in a given situation.

It was disappointing that some scripts were poorly presented – despite the fact that answers are written on the question paper. Column and total lines should be drawn with the aid of a ruler, dates should be shown where appropriate, and wording should be precise e.g. “B” is not sufficient to indicate “Balance”.

<u>Comments on specific questions</u>

Question 1

(a) Candidates were given details of a fixed asset of a business and were required to write up the asset account, the provision for depreciation account and the asset disposal account.

This should have been a relatively straightforward question on this topic. Although many candidates did achieve good marks, some showed a lack of understanding of the basic double entries required. The accounts covered two financial years, ending on the 31 March of each year, and this seemed to confuse some candidates. Traditional “T” accounts or three column running balance accounts were equally acceptable. Whatever method is selected, a standard format should be followed, as set out in all the basic accounting textbooks. In a traditional “T” account the usual order of columns on each side is date, details, folio and amount. Some candidates presented the columns in the somewhat unusual style of details, folio, date and amount on the debit side and in reverse order on the credit side of the account.

It was disappointing to find some candidates losing marks through lack of attention to details such as dates, descriptions and balancing. It is recommended that candidates study the published answer to this question and also work through the relevant examples in standard accounting textbooks.

(b) Two reasons were required on why a business, at present using the straight line method of depreciation, should not change to the reducing balance method. The majority of candidates correctly identified that to change would be contrary to the principle of consistency, but were unable to offer a second valid reason. The principles of prudence and matching were often incorrectly suggested. The depreciation method selected should spread the cost as fairly as possible to each period according to the benefit gained from the use of the asset. Also, it is not regarded as acceptable accounting practice to change methods of depreciation in order to manipulate profits.

Question 2

(a) Candidates were given an account of a debtor in the sales ledger of a business. An explanation of each item within the account was required, together with a statement of where the relevant double entry would be found.

Many candidates seemed to have a general understanding of the meaning of the entries in the account. Many marks were lost, however, because of a lack of attention to detail. The explanations were often incomplete and lacking precision. Suitable explanations would be as follows –

On 10 April Kadwani paid the amount owing to Hassan by cheque.
On 10 April Hassan allowed Kadwani a cash discount for prompt payment.
On 21 April Hassan sold goods on credit to Kadwani.
On 21 April Hassan charged Kadwani for delivering the goods to Kadwani’s premises.
On 25 April Kadwani returned goods to Hassan.

Many candidates correctly stated that at the end of the month Kadwani owed Hassan $325.

For each transaction candidates were required to state where the double entry would have been made. This should have been a relatively easy exercise on basic double entry bookkeeping, but once again many marks were lost through incomplete answers. There were many instances where only the name of an account was given without any indication of which side the entry would be made.

(b) A rent received account had to be prepared from given information. Either a traditional “T” account format or a three column running balance account was acceptable. Once again, candidates appeared to have difficulties in preparing the account which covered one financial year, but which spread over more than one calendar year. Attention should be paid to details such as dates, descriptions and balancing. It was disappointing that many candidates completely reversed the account, possibly mistakenly thinking it was rent *paid* not *received*. The amount transferred to the Profit and Loss Account at the end of the financial year should represent the income relating to that period of time, which in this case was $720.

Question 3

(a) It was pleasing that many candidates were able to successfully complete a departmental Trading Account for two departments of a business. Only a very small number of candidates prepared separate Trading Accounts for each department, instead of the columnar Trading Account that was required. Both horizontal and vertical methods of presentation were acceptable.

(b) Two reasons why it is useful for a trader to know the results of each department of the business were required. Most candidates were able to offer at least one reason, and many gave two acceptable answers. Suitable responses included the following –

More meaningful than a single Trading Account
Identifies the gross profit of each department
Enables trading results to be analysed
Enables overall profitability to be increased
Poor performance of a department can be identified and investigated

(c) Candidates were required to state why it would be more meaningful to compare the percentage of gross profit to sales rather than compare the actual gross profit of each department. There was a varied response. Some candidates recognised that the gross profit percentage measures profitability (the amount of profit earned on every $100 of sales) other candidates simply calculated the percentages but did not attempt to answer the question. The gross profit is an absolute amount, but as the sales of each department were different it is meaningless to compare these figures: the gross profit must be related to the amount of sales needed to generate that profit.

(d) Candidates were required to state two non-financial factors that should be considered before a decision is taken to close a department. Most candidates were able to suggest at least one factor. A few answers did, however, include financial considerations. Acceptable responses included the following –

Effect on staff morale
Effect on customers
Effect on the reputation of the business
Effect on the suppliers

Question 4

(a) Four relatively easy marks were available for explanations of the terms ‘bad debts recovered’ and ‘provision for doubtful debts’. A bad debt recovered is a debt, previously written off as bad, which is subsequently paid. Most candidates gave a satisfactory explanation, though a few failed to emphasise that the debt had actually been written off.

Explaining the term ‘provision for doubtful debts’ caused more problems. A few candidates described an amount of *money* set aside to cover future bad debts, which is, of course, incorrect. There were some rather imprecise responses such as “an estimate of possible reduction in the debtors”, which would have been improved by further explanation. A provision for doubtful debts is an estimate by a business of the likely amount of debtors who will not pay their account.

(b) From information provided about a business, candidates were required to prepare the account of a debtor, the bad debts account, and the bad debts recovered account. Both traditional “T” accounts and three column running balance accounts were equally acceptable. Once again, it was disappointing to find that many candidates lost marks through a lack of attention to basic details such as dates and descriptions.

The account of the debtor was often completed successfully. Instead of closing the bad debts account at the end of each year by a transfer to the Profit and Loss Account, a common error was to simply make one transfer of the total amount at the end of the second year. A few candidates did not seem to be familiar with a bad debts recovered account, but many did produce a satisfactory account.

Alternative methods for closing the bad debts recovered account were accepted. The account could be closed on 31 December 2001 either by a transfer to Profit and Loss Account or by a transfer to the bad debts account. In the latter case the transfer from bad debts account to Profit and Loss Account would then be $25 rather than $115.

Similarly, alternative methods for entering the bad debt recovered were accepted. The first method is to simply debit the bank and credit bad debts recovered with the amount received. An acceptable alternative is to firstly debit the bank and credit the debtor (Patsy Peacock) with the amount received. Then the debtor's account is closed by a debit entry and a corresponding credit to bad debts recovered account.

(c) Three ways in which the risk of bad debts could be reduced were required. Whilst many candidates successfully suggested one or two ways, others gave advice on how to collect debts rather than reduce bad debts. Acceptable responses included the following –

Obtain references from new credit customers
Fix a credit limit for each customer
Issue invoices and statements promptly
Follow-up overdue accounts promptly
Supply goods on a cash only basis
Refuse further supplies until outstanding account is paid

Question 5

(a) Four relatively easy marks were available in this section. Firstly, candidates were asked to state *why* partners in a business should have drawn up an agreement when the partnership was formed. Many were able to explain that it would avoid misunderstandings and disagreements later. A few candidates however listed the typical contents of a partnership agreement rather than explain why it is required. Using the data given about the partners in a given business, candidates were asked to state what particular items each partner would wish to include in the partnership agreement. Many correctly suggested that Mark would wish to include interest on capital or interest on drawings, and that John would wish to include a partnership salary.

(b) After the net profit of a business had been calculated it was found that errors had been made. Candidates were required to calculate the corrected net profit. It was very pleasing to find the vast majority of candidates correctly calculating the net profit at $4800 and gaining full marks on this section.

(c) Most candidates took the opportunity to earn two very easy marks by showing the division of the profit between the partners in equal shares.

(d) Candidates were required to prepare the Balance Sheet of a partnership business after four errors had been corrected. A Balance Sheet using either horizontal or vertical presentation was acceptable.

It was very disappointing to find that many candidates failed to present the Balance Sheet in an acceptable form. It was quite common to find that sub-totals for the various sections of the Balance Sheet (e.g. fixed assets, current assets, and current liabilities) were not given. If the figure for working capital was shown, it was frequently not accompanied by suitable wording. In the fixed asset section it is important that the cost price, depreciation to date, and net book value of *each* type of fixed asset are shown, together with a sub-total. A suitable presentation could be as follows.

Fixed Assets	Cost	Depreciation to date	Book Value
	$	$	$
Machinery	22 200	2 220	19 980
Fixtures and fittings	4 500	900	3 600
Motor vehicles	12 000	2 000	10 000
	38 700	5 120	33 580

The capital section of the Balance Sheet was particularly disappointing. There was a general tendency to ignore the fact that this was a partnership business and show the capital section in the same way as that of a sole trader. In a partnership it is important that each partner's capital account and current account are shown separately. A suitable presentation could be as follows.

	Mark	John	Total
	$	$	$
Capital Accounts	25 000	17 000	42 000
Current Accounts			
Profit share	2 400	2 400	
Less drawings	1 500	2 500	
	900	(100)	800
			42 800

This is obviously a section of the syllabus where many candidates would benefit from further study. It is recommended that the relevant sections of standard accounting textbooks are studied and the accompanying examples worked through.