ACCOUNTING

Paper 0452/01

Multiple Choice

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

General comments

There were 3606 candidates (compared to 3841 in June 2008). The mean mark was 24.62 (compared to 25.9 in June 2008) and the standard deviation was 8.07 (compared to 7.7 in June 2008).

Judged against the accessibility of 60-90%, no items were regarded as too easy. Nine items were regarded as slightly too difficult, eight items proved to be more difficult than anticipated and a further one item proved to be much more difficult than expected.

All the items were within the Core Syllabus.

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Comments on specific Questions

Questions 9 and 10

These items were both on the topic of business documents.

In **Question 9** the key was selected by 45%. Option B was selected by 28% who seem to be confused between debit and credit notes. It was surprising to find 27% selecting options A and D (confusing a debit note with an invoice).

In **Question 10** it was expected that the majority of candidates would know the order in which the business documents would be issued. The statistics indicate a degree of guesswork.

Questions 11 and 12

These items were both on the topic of discounts. The statistics indicate a large number of candidates do not appreciate the difference between cash and trade discount.

In **Question 11** the key A was correctly selected by 72%, but 21% selected option B.

In **Question 12** the key C was selected by only 45%.

Questions 13, 14, 15 and 21

These were all concerned with ledger entries. It was expected that the majority of candidates would be able to apply their knowledge of double entry bookkeeping and select the correct keys.

In **Question 13** 94% knew that the totals of the purchases journal and purchases returns journal are entered separately in the ledger, but 25% reversed the ledger entries.

In **Question 14** 68% correctly selected the key A. The statistics indicate a substantial degree of guesswork on what was a basic double entry.

In **Question 15** the key D was selected by 46%. Once again some guesswork appears to have taken place on what should have been a straightforward item.

In **Question 21** only 62% were able to select the key D. This item also involved basic double entry.

Questions 17, 18 and 19

All these items related to errors.

In **Question 17** it was expected that candidates would realise that the error described was an error of original entry. 56% correctly selected the key C. A total of 34% selected options A and B.

In **Question 18** it was disappointing to find 43% believing that the sales returns journal could be used to correct an error. It was anticipated that the majority would select the key B.

In **Question 19** 41% selected the key D. The selection of the other options suggests that many candidates do not have a thorough knowledge of the double entry system (which is required for error correction).

Questions 23 and 24

These items concerned capital and revenue receipts and payments. It was expected that the majority of candidates would be able to select the correct keys. The statistics indicate a substantial degree of guesswork on what should have been relatively straightforward items.

Question 28

The key was selected by 52%. Candidates were expected to know that stock is always valued at the lower of cost and net realisable value. It was disappointing to find 31% valuing 900 units at selling price (before correctly deducting 100 units at $5 each).

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Questions 31 and 32

These items were on the topic of partnership businesses.

In **Question 31** 51% correctly selected the key A. 29% shared out the total profit rather than deducting Adam's partnership salary and then sharing the residual profit.

In **Question 32** 55% correctly selected the key A. The selection of the other options suggests a degree of guesswork.

Question 37

Only 43% correctly selected C as the key. It was disappointing that 36% did not recognise that at short-term loan to an employee is a current asset.

Question 38

48% correctly calculated the capital employed as $50 000 (option C). 31% selected $35 000 (option A), which was the proprietor's (capital owned). Capital employed is calculated as total assets minus current liabilities.

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General comments

Candidates' performance varied widely on this question paper and there was evidence that they had particular difficulty with **Question 4**. Although there were a number of good scripts and many Centres had clearly worked hard to prepare their candidates, there were areas of the syllabus which candidates found very challenging.

Most of the short questions in **Question 1** were well answered but candidates found it difficult to give answers in their own words and as before weaker candidates offered a variety of answers in the hope that one or more would be correct. Candidates found **Question 2** difficult. Parts **(a)** to **(c)** were not well answered; candidates found part **(d)** difficult to answer clearly; part **(e)** was widely misunderstood, but reasonable answers were given to part **(f)**. All the parts to **Question 3** were well answered. Candidates found **Question 4** very difficult and although some gave good answers to parts **(a)** and **(b)**, a large number were unable to earn many marks at all. Candidates also found part **(a)** of **Question 5** difficult, but gave good answers to the rest of the question.

Most candidates completed all the questions and there did not seem to be evidence of time pressure. There was space on the question paper allocated for candidates to show their workings, where these are required, and as previously commented it is not possible to give credit to candidates who do not show these. It is recommended that Centres always encourage their candidates to show how they worked out the answers to numerical questions.

Comments on specific questions

Question 1

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus and was quite well answered although candidates had difficulty with items **(a), (c)** and **(d)**.

(a)   The correct accounting principle is realisation: many candidates gave accruals, matching or consistency, which were not correct.

(b)   Most candidates were able correctly to identify the first two given items as an asset and a liability, but had difficulty with the third:

		Asset	Liability
(i)	Prepaid expense	√ (1)	
(ii)	Bank overdraft		√ (1)
(iii)	Provision for depreciation		√ (1)

(c)   An unpresented cheque is one issued and entered in the cash book but not yet shown on the bank statement as paid by the bank. Many candidates correctly stated that an unpresented cheque had not been paid by the bank but omitted to state that it had been entered in the cash book.

(d)   The correct answer was "net realisable value" which should have been entered as the answer. Many candidates gave answers relating to how and where stock is shown in a balance sheet, which were not correct.

(e)   Most candidates correctly stated that sales returns would be found in the Trading and profit and loss account, but some just gave the answer yes or no, perhaps showing difficulty in understanding the wording of the question.

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(f) Working capital was correctly described as Current assets less Current liabilities by most candidates.

(g) (i) Acceptable examples of capital expenditure were: land, buildings, plant, equipment, machinery, fixtures, vans and other motor vehicles.

(ii) Acceptable examples of revenue expenditure were: rent, rates, electricity or other utilities, wages and salaries, office expenses, motor expenses, repairs and maintenance, carriage outwards, discount allowed, and other items found in a profit and loss account.

Some candidates gave "stock" as their answer and whilst this is not strictly a revenue expense, it was accepted.

(h) This part required the calculation of the percentage of gross profit to sales from information given. Most candidates correctly worked out the gross profit and correctly calculated the percentage.

The correct answer is: Gross profit (22 500) / Sales (75 000) x 100% = 30%

Question 2

This question tested candidates understanding of petty cash and how petty cash transactions are recorded. Candidates found the initial parts of the question difficult, and many became confused with the amounts and made calculations which were incorrect and unnecessary. It appeared some candidates were confused by the dates given.

(a) Candidates were required to state the expenses which had been paid in the month of March 2009. The amount of the imprest ($200.00) and the cash remaining ($129.00) were given so the total expenses paid was the difference between these amounts = $71.00

(b) Candidates were required to identify and total the expenses paid for the month of April from the information given. The expenses listed included a loan which had been repaid so this should not have been included. The listed expenses totalled $72.50 which is the correct answer.

(c) Candidates were then required to deduce the amount of cash which should have been in the petty cash box at the end of April. This is the difference between the imprest balance at the beginning of the month ($200.00) and the petty cash expenses found in part **(b)** ($72.50) = $129.50. This was more than the actual amount in the petty cash box stated in the question but many candidates did not appreciate that this was intended and attempted to construct answers to deal with the difference.

There was also evidence that candidates did not appreciate that part **(a)** referred to a different month to parts **(b)** and **(c)** and also became confused when dealing with the loan.

(d) This was not answered well. The reasons why a difference may arise between the actual amount of cash in a petty cash box and the amount which should be there would include:

(i) an error by the petty cashier in recording an item of expenditure
(ii) an item of expenditure not being recorded (an omission)
(iii) a voucher being incorrect, omitted, or fraudulent
(iv) missing or stolen cash

A number of candidates were able to suggest one of these, but few gained both the available marks.

(e) This was widely misunderstood. Most candidates related the question to the importance of recording business expenditure in general and gave answers relating to the calculation of profit or loss and good business practice. In fact the question related to the importance of keeping records of petty cash expenditure and the required answer included the importance of recording all petty cash transactions, and of always obtaining a petty cash voucher or receipt for each item of expenditure.

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(f)   The answer is to be found on the next page. Most candidates gained some marks in this part from making some correct entries on the pro-forma cash book. Common errors are set out below.

Many candidates brought down an opening balance of $200.00 instead of the balance of £71.00 and did not show the transfer of $129.00 on 1 April. Most correctly listed the items of expenditure, although some omitted narratives and some omitted to include the items in the total column: the correct entries in a petty cash book are important. Many found the entries for the issue and the repayment of the loan difficult, and some made a single entry, but on different sides of the cash book. Many omitted the entry for cleaning – and may not have realised it should be included. Some candidates did not balance the cash book, did not bring down the balance, and did not show the restoration of the imprest at 1 May. Some showed credit balances brought down, which is not possible with a petty cash book.

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Question 2(f)

Philo
Petty Cash Book

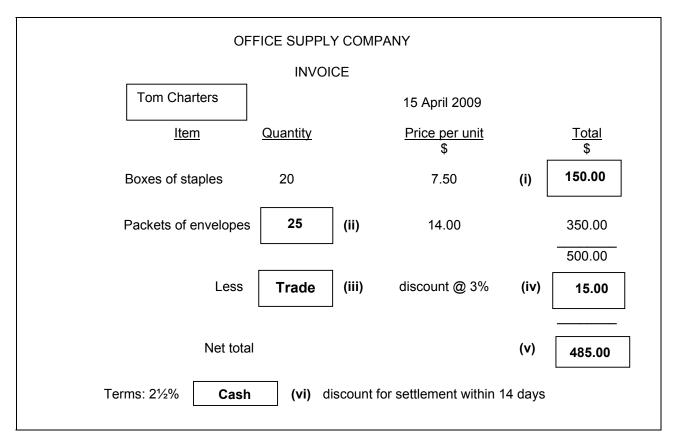| Date April	Details	Total $	Date April	Details	Total $	Postage/ stationery $	Refreshments $	Flowers $	Cleaning $	Other/Loan $
1	Balance b/d	129.00	5	Postage	20.00	20.00				
1	Bank	71.00	10	Refreshments	17.00		17.00			
29	Menon	100.00	13	Menon/loan	100.00					100.00
			17	Flowers	21.00			21.00		
			24	Stationery	14.50	14.50				
			28	Cleaning	10.00				10.00	
		300.00	30	Balance c/d	117.50					
					300.00	34.50	17.00	21.00	10.00	100.00
May										
1	Balance b/d	117.50								
1	Bank	82.50								

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Question 3

This question dealt with recording of purchases, discounts, calculating the cost of goods sold, calculating the rate of stock turnover, and asked for suggestions of the type of goods sold by businesses with high, and low, rates of stock turnover.

The question was well answered and many candidates obtained all, or very nearly all, the available marks.

(a) This question asked candidates to name the book of prime (original) entry used to record purchases: this is the purchases journal or day book. Most gave the correct answer, but a number of candidates gave the purchase ledger, which was incorrect, and some gave the general journal, also incorrect.

(b) Candidates were required to complete a pro-forma purchase invoice. The items to be inserted included the description "trade discount", and required the calculation of an amount to enter, and the description "cash discount", also with a calculation. Most gave correct answers to all the items to be inserted, but a number became confused between the two forms of discount. A few found the calculations difficult, and gave incorrect and improbable answers.

The correct invoice is shown below:

OFFICE SUPPLY COMPANY

INVOICE

Tom Charters   15 April 2009

Item	Quantity	Price per unit $		Total $
Boxes of staples	20	7.50	**(i)**	**150.00**
Packets of envelopes	**25** **(ii)**	14.00		350.00
				500.00
Less **Trade** **(iii)**		discount @ 3%	**(iv)**	**15.00**
Net total			**(v)**	**485.00**

Terms: 2½% **Cash** **(vi)** discount for settlement within 14 days

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(c) Candidates were required to calculate the cost of goods sold for a trader's year from summary information given. The part was well answered with most candidates earning all the available marks.

The correct calculation is

Opening stock	7 600
Purchases for the year	92 100
Less: purchases returns	(2 300)
	97 400
Less: closing stock	9 200
Cost of goods sold	88 200

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(d) Using the same information in **(c)**, candidates were asked to calculate the rate of stock turnover for the year. This part was also well answered, with most candidates earning all the available marks. Some candidates were unaware of the method of calculation, however, and others made arithmetical mistakes and lost marks. The answer could be shown as a number of times the stock turned over, or as the number of days the stock was held and credit was given for either answer.

The correct answer is:

	(Cost of goods sold / average stock) times
=	88 200 / [(7 600 + 9 200) / 2]
=	10.5 times

Or:	(Average stock / cost of goods sold) x 365 days
=	[(7 600 + 9 200) / 2] / 88 200 x 365
=	34.76 days

(e) The final part of the question asked candidates to suggest the type of goods sold by a business with **(i)** a high rate of stock turnover and **(ii)** a low rate of stock turnover.

This part was not answered as well as the calculation parts, perhaps showing that candidates are not as well prepared in understanding and interpreting their calculations.

(i) Examples of goods with a high rate of stock turnover would be fresh food, drinks, stationery, petrol, and similar items, bought frequently.
(ii) Examples of goods with a low rate of stock turnover would be jewellery, household appliances, cars, furniture, and similar items, bought less often.

Question 4

This question was found to be very difficult by many candidates, and very few completely correct answers were given. Parts **(a)** and **(b)** required the preparation of two separate ledger accounts from information given, including opening and closing accrued expenses and bank payments. Candidates may have found it difficult to use the information correctly as it was not shown in the form of a cash book to be posted to the ledger accounts, but they needed to select the information from the question and use it correctly. Part **(c)** required candidates to state whether the lack of an accrual resulted in the amount charged to profit and loss account being understated or overstated and there was clear evidence of random answers, with many candidates not knowing the correct answer.

(a) Candidates were asked to write up the motor expenses account. An accrued expense of $120 had been brought forward from the previous month, and bank payments were made to pay this amount and a further amount in the month. A bill for motor fuel for $80 had been received, but not paid, before the end of the month, and an accrual needed to be shown for this amount. The amount transferred to the profit and loss account for the month is the balance after these entries have been made.

The correct entries in the motor expenses account are:

Rupa – motor expenses account

March			March		
6	Bank	120.00	1	Balance b/d	120.00
12	Bank	150.00			
31	Balance c/d	80.00	31	Profit & Loss Account	230.00
		350.00			350.00
			April		
			1	Balance b/d	80.00

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(b) Candidates were asked to write up the rent payable account. Accrued rent had been outstanding at the beginning of the month, a bank payment had been made, and the amount to be charged to profit and loss account was given (the landlord's charge for the month, $450) so it was necessary to work out the accrued outstanding rent and show it in the rent account as a balance carried down at the end on one month and a balance brought down at the beginning of the next month.

The correct entries in the rent account are:

Mopsa – rent account

April			April		
27	Bank	500.00	1	Balance b/d	150.00
30	Balance c/d	100.00	30	Profit & Loss	
				Account	450.00
		600.00			600.00
			May		
			1	Balance b/d	100.00

(c) Candidates were asked to select between the amount charged to profit and loss account for electricity being understated or overstated if no accrual had been made. The correct answer was understated as the amount charged should be increased by the accrual.

Question 5

This question asked candidates to prepare a trader's capital account and then his balance sheet from information given in his trial balance. From the balance sheet, candidates were asked to calculate the current ratio and the quick ratio, and then comment on which would be used to decide if the trader could afford to pay his creditors.

(a) This required the preparation of the capital account. Although many candidates were able to do this correctly, many did not seem to understand the question and confused the capital account with the balance sheet, or thought the question referred to a partnership capital account, and included items such as the bank loan incorrectly. The correct entries in the capital account are:

Gordon – capital account

			2008		
			1 April	Balance b/d	6 400
2009			2009		
31 March	Drawings	12 000	31 March	Net profit	12 900
31 March	Balance c/d	7 300			
		19 300			19 300
			1 April	Balance b/d	7 300

(b) This part required the preparation of the balance sheet at 31 March 2009. This was very well answered with most candidates gaining the available marks. Common errors included showing the bank loan under the "Financed by" heading, setting out the details of the capital account movement in the year (often duplicating the answer to part **(a)**, and in some cases showing the correct answer in this part without having earned any marks for part **(a)**), omitting the net current assets subtotal or showing the description beside the wrong subtotal, and incorrectly including the bank loan in current liabilities, as it is shown as not repayable until 2011.

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The balance sheet should have been shown as follows:

Gordon – Balance sheet at 31 March 2009

	Cost	Provision for Depreciation	Net book value
Fixed assets	$	$	$
Plant and equipment	8 000	1 600	6 400
Motor vehicles	4 000	1 000	3 000
	12 000	2 600	9 400
Current assets			
Stock		1 900	
Debtors		3 400	
Bank		700	
		6 000	
Current liabilities			
Creditors		2 100	
Net current assets (working capital)			3 900
			13 300
Less long term liability			
Bank loan repayable 2011			6 000
			7 300
Financed by:			
Capital			7 300

(c)   Candidates were asked to use the information from the balance sheet to calculate **(i)** the current ratio and **(ii)** the quick ratio. The calculations were to be made to two decimal places and candidates were asked to show their workings. Most candidates were able to calculate both ratios, although some became confused with working capital, and some incorrectly included the bank loan as a current liability in the calculation. Some made arithmetical errors, and some lost marks by showing their answer to one decimal place and not two. If no workings were shown, and the correct answer was not shown, it was not possible to give credit for any part of the calculation which may have been correct.

    (i)   Current ratio   = Current assets / current liabilities
                                                  = 6 000 / 2 100
                                                = 2.86:1

    (ii)   Quick ratio   = Current assets – stock / current liabilities
                                                  = (6 000 – 1 900) = 4 100 / 2 100
                                                  = 1.95:1

(d)   This asked candidates to indicate which of the two ratios should be used to decide if creditors could be paid. The correct answer is the quick ratio, as stock cannot easily be converted into cash and is therefore excluded.

Although a substantial proportion of candidates chose the correct answer, there were a large number who did not, and some may have chosen at random if they did not know the correct answer.

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General comments

This structured examination paper was designed to discriminate between candidates obtaining Grades A to C. Only those candidates who had studied the Extended Curriculum and who were expected to achieve at least a Grade C should have been entered for this paper. The questions were all compulsory and were set mainly on the Extended Curriculum. The paper was so designed that some of the marks should have been easy to achieve but other marks could only be achieved by demonstrating a greater degree of understanding and knowledge. A number of candidates would have benefited from further study before attempting an examination of this level.

A thorough knowledge of the subject is necessary to achieve a pass grade. In preparing for the examination candidates are advised to work through past examination papers and relevant exercises in textbooks.

Candidates are reminded that it is important to read through each question carefully. It is important to pay attention to exactly what a question requires. Some candidates lost marks needlessly by failing to follow the instructions provided. For example marks were lost when an instruction to balance ledger accounts was ignored. Similarly, failing to round an answer up to the next whole day resulted in the loss of marks.

It is also important that calculations are shown where appropriate. Where an incorrect figure is shown no marks can be awarded if there are no supporting calculations; where calculations are provided it may be possible to award some of the available marks.

Where a question specifies a number of items required, for example "State one type of ....", State two ways ...." candidates are expected to follow these instructions. It is not acceptable to provide a list of several items and expect the Examiner to select the correct one(s).

It is recommended that the following comments are read in conjunction with the question paper and the published mark scheme.

Comments on specific questions

Question 1

This question was on the topic of depreciation.

(a) Candidates were required to write up a motor vehicles account and a provision for depreciation account. Traditional "T" accounts or three column running balance accounts were equally acceptable. The motor vehicles account was generally well-presented. A small number of candidates included entries for depreciation in the asset account.

It was pleasing to see that the vast majority of candidates understood the entries required in a provision for depreciation account. It was disappointing to find a large number of candidates making an error in the calculation of depreciation in the second year. The data clearly stated that motors were depreciated from the date of purchase. It was expected that candidates would charge only 8 months depreciation ($1440) on the second motor: the majority charged a whole year's deprecation ($2160).

A few candidates lost marks because of inaccurate wording e.g. "motor" or "Valley Motors" in lieu of "bank" in the asset account. Most candidates did make an attempt to date the entries in the accounts.

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(b) An extract from the fixed asset section of a balance sheet was required. Most candidates were able to make use of their own figures in the ledger accounts prepared in part **(a)** and to show the cost, depreciation to date and book value. Some candidates lost marks because they provided two or three anonymous figures without any headings or labels.

(c) Candidates were required to complete a table showing the accounts to be debited and credited to record the disposal of a motor vehicle. There was a varied response with some candidates gaining all the available marks and others gaining only one or two marks. The last transaction – recording the part-exchange allowance made by the garage – seemed to cause the most problems.

(d) An explanation of the revaluation method of depreciation was required. It was disappointing to find that many candidates believed that the revaluation method is another name for the reducing balance method. Other candidates lost marks as they failed to offer a reasonable explanation.

A large number of candidates correctly suggested loose tools or premises as being assets commonly depreciated using the revaluation method.

Question 2

Candidates were required to prepare a profit and loss account and to answer theory questions relating to working capital.

(a) A large number of candidates did not seem familiar with the preparation of a profit and loss account for a service business. A number described the fees from clients as sales and attempted to prepare a trading account using the stationery as the cost of sales. Even those who used the correct format made elementary errors on the year-end adjustments. The wages owing were often deducted from the amount paid and the insurance prepaid was often added to the amount paid. The provision for doubtful debts and the depreciation for the year on equipment often caused problems. Some candidates incorrectly included the cost of equipment, the opening provision for depreciation or the opening provision for doubtful debts as expenses. Both vertical and horizontal presentations were acceptable.

(b) Candidates were required to explain why it is important for a trader to have an adequate amount of working capital. It was pleasing to find the vast majority of candidates were able to provide an acceptable answer.

(c) Two ways in which a trader could increase the working capital were required. Many candidates gave two acceptable answers. A few lost a mark by not specifying that a loan must be a long term one. It was disappointing that a number of candidates incorrectly referred to changes within the working capital such as increasing stock and reducing creditors.

(d) Three transactions were given and candidates were required to state and explain the effect on working capital of each transaction. Most candidates were able to provide a satisfactory answer to the first transaction. The other transactions proved to be more difficult, especially the last transaction. It would appear that, whilst many candidates understand what working capital represents, they cannot apply knowledge to given situations.

Question 3

The first sections of this question were on the topic of control accounts. The remainder of the question involved explanations of accounting terminology.

(a) Using given data, candidates were required to prepare a sales ledger control account. A traditional "T" account or a three column running balance account was equally acceptable. It was pleasing to find many candidates were able to earn most of the marks available. Common errors were to include extraneous items (such as the cash sales and provision for doubtful debts) and to omit the dates.

The bad debts recovered could be excluded from the account (entries being made in the cash book and the bad debts recovered). Alternatively, the debt could be re-instated (debited to the debtor) and then an entry made for the amount received (credited to the debtor) in which case it would appear on both sides of the account. Either method was acceptable.

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(b) Many candidates were able to provide an acceptable reason why there may be a debit balance brought down on a sales ledger control account.

(c) Candidates were required to state where three items would appear in a purchases ledger control account. It was pleasing to find the majority of candidates providing correct answers.

(d) An explanation of the accounting term "relevance" was required. Few candidates were able to provide an acceptable explanation, despite the fact that this question has appeared in previous examination papers. Some candidates confused relevance with reliability; others simply stated that the accounts should be relevant.

(e) This question was on the limitations of accounting statements. Candidates were required to explain how two given factors were regarded as limitations.

Many candidates were able to explain that only information which can be expressed in monetary terms can be recorded in the accounting statements. However many could not explain the impact of this on the interpretation of accounting statements.

An explanation of the time factor proved extremely difficult and only a very few candidates attempted an answer. Some incorrectly referred to accruals/prepayments or credit periods for debtors/creditors. Accounting statements are a record of what has happened in the past. They are not necessarily a guide to future performance. Significant events can occur between the end of the financial period and the time when the accounting statements are available.

Question 4

This question was based on the accounts of clubs and societies.

(a) Candidates were required to prepare a subscriptions account. A traditional "T" account or a three column running balance account was equally acceptable. Whilst some candidates gained good marks, others did not seem familiar with the preparation of a subscriptions account. A number of candidates failed to appreciate that an amount prepaid by members represents a credit balance on a subscriptions account and an amount owing by members represents a debit balance. Marks were also lost by a lack of attention to details such as dates and correct wording.

(b) Using a receipts and payments account and other data, candidates were required to prepare an income and expenditure account. Both vertical and horizontal formats were acceptable. It was disappointing to find a few candidates who elected to use a horizontal format showing the income on the debit and the revenue on the credit side.

It was pleasing to find a number of candidates gaining good marks. Other candidates lost marks through failing to make correct adjustments for accruals and prepayments. The calculation of depreciation proved difficult for some candidates. A number of candidates failed to make use of the subscriptions for the year calculated in part **(a)**. A few candidates introduced extraneous items such as bank balance and accumulated fund. It was disappointing to find only a minority of candidates setting the expenses of the sports day against the entrance fees.

(c) Candidates were required to select an item appearing in the receipts and payments account but not in the income and expenditure account and to provide an explanation. They then had to select an item appearing in the income and expenditure account but not in the receipts and payments account and to provide an explanation. It was pleasing to find that most candidates were able to select appropriate items. Explanations proved a problem for a number of candidates who limited their answer to something like "it does not appear in the income and expenditure account" which is not an acceptable explanation.

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Question 5

This question involved the interpretation of accounting statements.

(a) Candidates were required to state two reasons for a fall in the percentage of gross profit to sales. Many candidates managed to earn half of the available marks. A number of candidates incorrectly suggested a decrease in the quantity of goods sold and an increase in the amount of goods purchased. Correct responses included a reduction in the selling price and an increase in the cost of goods purchased.

(b) It was pleasing to find that the vast majority of candidates were able to suggest an acceptable way in which the percentage of net profit to sales could be increased.

(c) It was anticipated that the majority of candidates would find the calculation of the percentage of expenses to sales a very easy calculation. The percentage of net profit to sales had to be deducted from the percentage of gross profit to sales to arrive at figures of 15% and 12%.

(d) Using their answer to **(c)** candidates were required to explain how the change in the percentage of expenses to sales had affected the efficiency of the business. Only the more able candidates recognised that the fall in the expenses percentage indicated an improvement in the efficiency of the business in controlling expenses. A number of candidates referred to the fall in the monetary amount of the expenses rather than a fall in the percentage.

(e) Candidates were required to calculate the payment period for creditors and the collection period for debtors. It was pleasing to find most candidates providing correct answers. A few ignored the instruction to round up the answers to the nearest whole day. A few incorrectly included the cash sales and the cash purchases. Candidates who produced incorrect answers lost all the available marks where no calculations were shown.

(f) Using their answers in **(e)** and the comparative figures for the previous year, candidates were required to explain the effect of the change in the ratios on the liquidity of the business. It was disappointing that a large number of candidates simply re-stated their answers to **(e)** that the debtors paid in 36 days and the creditors were paid in 51 days. This was not the answer to the question asked.

(g) Two ways in which the collection period for debtors could be improved were required. It was pleasing that the vast majority of candidates were able to gain maximum marks.

(h) Candidates were required to explain how non-monetary factors and accounting policies affect inter-firm comparison.

Most candidates provided a suitable example of a non-monetary factor, but were unable to explain the impact on the accounting statements.

Accounting policies proved difficult for the majority of candidates. Once again the more able candidates provided a suitable example but were unable to offer an acceptable explanation. The weaker candidates either failed to provide an answer or listed accounting principles such as prudence and matching.

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