CONTENTS

Group V

Creative, Technical and Vocational

ACCOUNTING

Paper 0452/01
Paper 1 - Multiple Choice

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

General comments

This was the fourth sitting of this Paper. It was taken by 4657 candidates (an increase of 10.1% compared to November 2001).

The mean mark was 23.3 out of 40 (November 2001, 20.2). Standard deviation was 7.6 (November 2001, 7.8).

Judged against accessibility limits of 50-90%, no item was too easy and 14 items were too difficult.

All items were within the Core syllabus.

Comments on specific questions

Question 1

50% chose **D**, thinking that working capital shows an owner how well his business is doing, rather than the correct answer **C** (net profit), chosen by 45%.

Question 4

Only 39% correctly chose **D**, with 57% deciding wrongly that a Balance Sheet is an *account* showing a business's financial position on a certain date **(C)**.

Question 11

39% correctly chose **C**. 46% chose **B**, doubling the amount ($1200) to be added to the balance of the purchases account.

Question 12

41% correctly chose **B**, but 37% chose **C**, thinking that the adjustment needed would be made in the purchases journal.

Question 19

Only 33% correctly chose **D**, the selection of other options indicating a large element of guess-work and that many did not appreciate that the Suspense account entry was twice the amount of the original mis-posting of $200.

Question 20

44% chose the key, **D**. 29% did not realise that the Suspense account balance was $240(Cr.), wrongly choosing **C**.

Question 22

Only 35% correctly identified the key as **C**, with 42% choosing **B**, not realising that charges of $240 were already included in the bank statement balance.

Question 23

37% correctly chose **C**, appreciating that expenses are deducted from selling price to arrive at the new realisable value of stock. Selection of other options again suggested an element of guess-work.

Question 26

41% correctly chose **D**, but 46% opted for **A** apparently under the impression that depreciation's purpose is to find an asset's value at the end of its useful life.

Question 31

Only 37% identified the key as **A**, with the same proportion thinking that Ben's total income was simply half the net profit of $26000 and choosing **C**.

Question 33

41% correctly chose **B**, but 23% chose **A** thinking that there was no prepayment of rent at 31st December 2001.

Question 36

Only 36% correctly chose **A**, valuing stock at cost. 32% however chose **C**, wrongly valuing stock at selling price.

Paper 0452/02
Paper 2

General comments

Candidates' overall performance was satisfactory, if at times somewhat uneven. Some excellent scripts were submitted and answers to most of the questions demonstrated sound grasp of many basic principles. It is pleasing to report that answers to **Question 2** often gained full marks and that **Question 3** was also usually well answered. Disappointingly however, **Question 4** revealed various weaknesses in candidates' ability to handle the preparation of ledger accounts, with proper attention to detail often conspicuously lacking and the resultant unnecessary loss of marks. Answers to **Question 5** varied; some candidates were well able to present a partnership in final accounts whilst others showed little grasp of the basic requirements.

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 consisted of a series of short answer questions dealt with in detail below.

(a) A large majority gave a suitable example of a current asset, stock and debtors being popular choices; cash (in hand and at bank) and prepaid expenses were also acceptable responses.

(b) Most candidates correctly identified the *business entity* concept as requiring only a business's financial transactions to be recorded in the business's books, distinguishing these from any personal transactions of the owner(s). Some incorrectly offered money measurement.

(c)(i) A majority correctly named the error in posting a purchase to the wrong personal account was an *error of commission*.

(ii) The document sent to a supplier when goods are returned by a purchaser was generally understood to be a *debit note*, although a credit note was sometimes offered.

(iii) Most candidates correctly identified the prime (original) entry books as:
1. Purchase Returns (or Returns Outwards) Journal
2. Sales Returns (or Returns Inwards) Journal.

(d) There were few correct answers stating that a business should value its closing stock at *the lower of cost and net realisable value*. Some candidates stated only one or the other of these options, whilst others mentioned LIFO and FIFO or that it should be deducted from purchases in the Trading Account.

(e) Whilst a majority knew that the balance of the Carriage Outwards account is transferred to the Profit and Loss Account, quite a number offered Trading Account, Balance Sheet or Trial Balance.

(f) New equipment and camera repairs were usually correctly identified as capital and revenue expenditure respectively, but many candidates failed to realise that equipment installation costs are part of the cost of a fixed asset and are therefore capital expenditure.

(g) A surprisingly large number found calculating the charge for the insurance to be shown in a Profit and Loss Account difficult. The answer is:

		$
	Balance on 1st October 2001	2000
Add	Paid in Year	10000
		12000
Less	Prepaid, ¼ x $10000	2500
	D/L Account charge	9500

Many were clearly unable to handle such straightforward adjustments, the most common errors being to ignore *either* the opening balance of $2000 (producing the figure $7500) *or* the prepayment of $2500 at 30th September 2002 (giving an answer of $12000).

(h) Attempts to explain what is meant by a compensating error were often poor. Whilst some stated that they are 'errors which cancel out', few were able to provide a full explanation (i.e. that there were two errors of equal amounts on opposite sides, thus cancelling each other out) or give a suitable example.

(i)(i) Calculation of the trader's bank statement balance is:

	$
Cash book balance, 30th June 2002	3200
Less uncleared deposit	600
Balance as per bank statement	2600

This was often answered incorrectly, $3800 or $600 both being offered.

(ii) As a balance sheet shows balances in the trader's books on a given date, the '*Bank*' *figure* on 30th June 2002 must be *£3200*. Again there was some considerable uncertainty, $2600 often being quoted.

Question 2

Generally well answered, several candidates gaining full marks.

(a)(i)(ii) Required the calculation of a trader's purchases and sales from incomplete records, answers to which are as follows.

Purchases	**$**	**Sales**	**$**
Paid to creditors	31000	Received from debtors	50000
Creditors at 30th June 2002	4000	Debtors at 30th June 2002	8000
	35000		58000
Less Creditors at 1st July 2001	3000	*Less* Debtors at 1st July 2001	6000
	32000		52000
		Cash sales	10000
			62000

The main weaknesses were for stock figures to be included in the calculations and for debtors and creditors figures to be transposed.

(b) Most candidates did well in presenting a trading account in either the 'T' account or vertical format, the latter being shown below.

	$	**$**
Sales		6200
Less cost of goods sold:		
Opening stock	5000	
Purchases	32000	
	37000	
Closing stock	7000	30000
Gross profit		32000

Application of the 'own figure' rule meant that many obtained maximum marks.

(c) Most candidates applied the correct formula to calculate the trader's rate of stock turnover as 5 times $\left(\frac{\text{COGS}}{\text{Average stock}} = \frac{30000}{6000}\right)$

Again, many obtained full marks; the main weakness was failure to calculate average stock correctly.

Question 3

(a) A large majority correctly completed the boxes in the balance sheet to give the following answers: **(i)** $86000 **(ii)** $20000 **(iii)** Assets **(iv)** Drawings **(v)** $5500.

(b) Required to calculate the current and quick ratios, a large majority selected the correct balance sheet items and applied the correct formulas as follows:

(i) Current ratio: $\frac{\$22000}{\$10000} = 2.2:1$

(ii) Quick ratio: $\frac{\$22000 - 16000}{\$10000} = 0.6:1$

However, a significant number of candidates lost marks by not expressing their answers as ratios.

(c)(i) Working capital was usually correctly calculated as $12000, being current assets, $22000, minus current liabilities, $10000. A small minority included all the assets in their calculation.

(ii) Asked to state two effects if a business has insufficient working capital, answers were very variable. Better candidates avoided vague general statements such as 'it will have financial problems', identifying instead specific effects including loss of discounts for prompt payment, inability to pay creditors for supplies or the work-force its wages or day-to-day expenses, interruption to production and the extension of bank finance. There was evidence of some confusion between cash flow and profit.

Question 4

This was the most poorly answered question on the Paper, particularly part **(b)** where many candidates who otherwise did well overall lost a significant number of marks.

(a) Explanation of the reducing (or diminishing) balance method of depreciation were often characterised by basic misunderstanding and poor expression. This method applies a given percentage each year to an asset's net book value so that depreciation decreases over time. In some instances candidates were able to support their explanation by means of a suitable example. Other answers confused this method with the straight line (or equal instalment) method, a fundamental misconception.

(b) Required to write up two ledger accounts from given data, answers were on the whole very disappointing. Only a few good answers gaining full marks were submitted and too often marks were lost though incorrect account details, undated entries and entries on the wrong sides of the accounts. These accounts are shown below in a 'T' account format, the running balance format also being acceptable.

Equipment account

2001		**$**	*2002*	**$**
1st September	Balance b/d	40000	31st August c/d	90000
	Bank	30000		
2002				
1st March	Bank	20000		
		90000		90000
2002				
1st Sept	Balance b/d	90000		

Provision for Depreciation of Equipment Account

2002		**$**	*2001*		**$**
31st August	Balance b/d	23000	1st September	Balance b/d	15000
			2002		
			31st August	Profit and Loss Account	8000*
		23000			23000
			2002		
			1st September	Balance b/d	23000

* The transfer to Profit and Loss Account is calculated as follows:

	$		$
Opening equipment balance	40000		
+ equipment purchased on 1st September 2001	30000		
Depreciation at 10% p.a on	70000	=	7000
Equipment purchased on 1st March 2002	20000		
Depreciation at 10% p.a. *for 6 months*		=	1000
			8000

(c) Attempts to show how the equipment and accumulated depreciation were shown in the Balance Sheet at 31st August 2002 were also disappointing. Often candidates ignored their own ledger account balances or introduced figures apparently at random. The Balance Sheet extract is shown below.

Fixed Assets	Cost	Accumulated Depreciation	Net book value
	$	$	$
Equipment	90000	23000	67000

(d) Asked to explain how providing for depreciation of equipment observed the prudence concept, better candidates examined both the effects on profits (not overstated) and asset values (being shown at more realistic values), producing some good answers. More often however only one aspect was mentioned and sometimes explanations were simply vague or very general statements not applied to this context.

Question 5

(a)(i) A good number of candidates gained full marks for their presentation of a partnership's Profit and Loss Account. The main error was the omission of interest on the partner's loan, which should have been shown as an expense. Some candidates did not show the adjusted totals for insurance and general expenses, losing marks as a result. The Profit and Loss Account in vertical form is given below, the 'T' format also being acceptable.

Profit and Loss Account for the year ended 30th September 2002

Gross profit brought down		24000
Add Discount received		700
		24700
Less Loan interest, Brown		
(10% x $10000)	1000	
Insurance (4000 – 3000)	3000	
General expenses (4900 + 600)	5500	
Depreciation (10% x $40000)	4000	
Discount allowed	1200	14700
Net profit		10000

(ii) Attempts to produce the partnership's Appropriation Account were on the whole less successful. Errors included showing Capital accounts and loan interest as income, not bringing down the net profit calculated in **(I)** and adopting a columnar current account style of layout. Some candidates showed loan interest as an appropriation of profits instead of, or as well as, an expense in part **(I)**.

The account is shown below in vertical format, 'T' account format also being acceptable.

Appropriation Account for the year ended 30th September 2002

	$	$	$
Net profit brought down			10000
Interest on capital:			
Brown	1500		
White	750	2250	
Salary, White		4000	
Balance (share) or profits:			
Brown, $^3/_5$	2250		
White, $^2/_5$	1500	3750	10000

(b) Explanation as to why White received a salary in addition to his profit share were often well argued, usually based on the assumptions that he carried greater day-to-day responsibilities or did more than Brown. He would not however receive his salary as compensation for a lower profit share or because he contributed less capital.

Paper 0452/03

Accounting

General comments

This structured Examination Paper was designed to discriminate between candidates obtaining Grades A to C. The syllabus recommends that only those candidates who have studied the Extended Curriculum and who are expected to obtain a Grade C, or higher, should be entered for this Paper. As usual, all the questions were compulsory and were based mainly on the Extended Curriculum.

Candidates were given the opportunity to earn some relatively easy marks, but other marks could only be earned by the demonstration of further knowledge and understanding.

Some of the examination scripts were of a high quality, clearly demonstrating that those candidates had a thorough knowledge of the subject and were able to apply that knowledge to given situations. It was, however, disappointing to find a significant number of examination scripts of a very low standard. These candidates did not appear to have an adequate knowledge of basic accounting principles, and would have benefited from further study before attempting this Extended Curriculum Examination Paper.

Candidates are advised to read through the requirements of each question carefully before attempting to answer the question. Many candidates lost valuable marks by producing answers which were factually correct, but which were not the correct responses to the questions asked.

Valuable marks were lost by careless errors, such as transposition of figures or omitting a digit from a figure. Marks were also lost because of imprecise wording, such as simply putting “B” to indicate the word “Balance”. Where ledger accounts are prepared in the “T” account format, the closing balance should be brought down to start the following accounting period and marks may be lost if this is not done.

Comments on specific questions

Question 1

This question involved journal entries, a suspense account, and the effect of errors on a trader’s net profit.

(a) Candidates were required to prepare journal entries to correct five errors. This should have been a relatively straightforward question, and many candidates did achieve good marks. However, some candidates showed a lack of understanding of basic double entry principles.

The first item involved cash spent on stationery being entered in the cash book but not in the stationery account. A few candidates incorrectly credited the cash book.

In the second item the sales journal had been undercast, and a common error by candidates was to credit the sales journal.

The next item was an error of commission. This did not involve the use of the suspense account. A few candidates reversed the entries, and a few prepared entries involving the suspense account.

The fourth item caused problems for some candidates. The total of the discount received column in the cash book ($14) had been debited to the discount allowed account in the general ledger. The most common error was to debit discount received and credit discount allowed with either $28 or $14.

Finally, an amount paid to a creditor had been credited to his account. Many candidates failed to realise that, when an item is entered on the wrong side of a ledger account, a correcting entry of twice the original amount is required.

A few candidates wasted valuable time writing a narrative for each journal entry, despite the instruction that narratives were not required.

(b) Candidates were required to write up a suspense account to show the required amendments as a result of correcting the errors. A traditional "T" account or a three column running balance account was equally acceptable.

Once again, some candidates gained good marks. Other candidates lost marks through poor presentation and lack of attention to detail. A common error was to refer to the sales journal, rather than the sales account.

(c) Candidates were required to state how the draft net profit was affected by the correction of the errors.

There was a wide variation in the marks gained. Some candidates did not appreciate the fact that errors 3 and 5 did not affect the net profit.

Question 2

This question was on the topic of control accounts. There was a wide range in the quality of answers produced.

(a) Candidates were required to state two advantages of control accounts. Many candidates incorrectly stated that control accounts are used to calculate sales and purchases. Where a full set of accounting records is maintained, the main purpose of control accounts is to prove the arithmetical accuracy of the sales and purchases ledgers. Where a trader has not maintained a full set of accounting records, *total* accounts may be prepared to calculate the credit sales and credit purchases.

Many candidates were aware that control accounts may be used to identify ledgers in which there are errors when a trial balance fails to agree. A common error, however, was to state that control accounts were used to *correct* errors.

Other acceptable responses included –

Provides instant totals of debtors/creditors

Enables the Balance Sheet to be prepared quickly

Provides a summary of the transactions relating to debtors/creditors for the period

Reduces the possibility of fraud

(b) Three items appearing in a sales ledger control account were listed and candidates were required to state *where* the relevant figures would be obtained i.e. the source of information for these items. Many candidates failed to understand what was required and often stated the side of the control account on which the items would appear.

Those candidates who did understand the question sometimes, incorrectly, gave the name of a business document e.g. sales invoice, or the name of a ledger account e.g. sales account rather than the name of a book of original (prime) entry.

(c) Candidates were asked to explain one reason why a credit balance may occur on a sales ledger control account. Again, it would seem that many candidates did not read the question carefully, or did not understand what was being asked. Incorrect answers included the credit side of an account being larger than the debit, sales being larger than purchases, cheques being dishonoured and debts being written off as bad.

Correct responses included –

Debtors returning goods after settling their accounts

Debtors over-paying their accounts

Debtors paying in advance for their goods

(d) Candidates were required to prepare a purchases ledger control account from given information. The account was acceptable in either traditional "T" account format, or in three column running balance format.

Whilst many candidates did gain good marks, it was disappointing to find some candidates losing marks through lack of attention to details such as dates, descriptions and balancing. Some candidates also failed to apply basic double entry principles and made such errors as entering purchases and purchases returns on the same side (in the same column) of the account.

The item causing the most problems was the cash received from a supplier for an overpayment. This was often shown incorrectly as a debit entry in the purchases ledger control account.

Question 3

This question was based on the accounts of non-trading organisations, and also included the application of "mark-up" to calculate the cost of stolen stock.

(a) From details provided, candidates were required to prepare a club's Receipts and Payments Account. Whilst some candidates produced excellent answers, other candidates were only able to earn a few of the marks available.

Both the traditional "T" account format and the vertical format were equally acceptable. It was, however, somewhat disappointing to find a few candidates who had opted to use the two-sided format, reversed the account and recorded receipts on the credit and payments on the debit.

A significant number of candidates incorrectly adjusted the items of subscriptions, insurance and rent for accruals and prepayments. A Receipts and Payments Account records actual amounts of money received and spent during the period: figures should NOT be adjusted for accruals and prepayments.

Other common errors included -

Inclusion of opening and closing snack bar stocks

Inclusion of equipment held at the start of the period

Omission of opening balance

(b) Candidates were required to explain two ways in which an Income and Expenditure Account differs from a Receipts and Payments Account. There were many disappointing answers to this question. A common incorrect answer was that an Income and Expenditure Account is a final account and a Receipts and Payments Account is not.

Acceptable responses included –

An Income and Expenditure Account is similar to a Profit and Loss Account: a Receipts and Payments Account is a summary of the cash book

An Income and Expenditure Account is used to calculate the surplus/deficit: a Receipts and Payments Account is used to calculate the bank balance

An Income and Expenditure Account includes adjustments for accruals and prepayments

An Income and Expenditure Account does not include capital receipts and capital payments

(c) Using a Trading Account format, candidates were required to calculate the value of stolen stock. Both horizontal and vertical Trading Accounts were acceptable. Many candidates found this question difficult. There were very few wholly correct answers, although most candidates did gain some marks for the correct use of sales, opening stock, purchases and the calculation of an own figure gross profit.

Once a basic Trading Account had been drafted, the figures for sales, opening stock and purchases could be inserted. The question stated that goods were marked up by 20% on cost, so the sales of $3000 must represent 120%. The gross profit must, therefore, be 1/6 of the sales i.e. $500, and the cost of sales must be $2500. These figures could then be inserted in the Trading Account. It was then possible to insert the figure for total closing stock. Deducting $125 for the value of the stock remaining, the figure remaining, $235, represented the value of the stock stolen.

Question 4

This question was concerned with the introduction of a new partner to an existing partnership business.

(a)(b) Candidates were required to state two advantages and two disadvantages to the new partner of joining the partnership. It appears that many candidates misread or misunderstood the question and described the advantages and disadvantages to the existing partners rather than to the new partner.

Acceptable responses included –

Advantages	Disadvantages
Will have a share in the profits	Will be personally liable for the debts of the firm
Can take part in decision-making	Will have greater responsibilities
Prospects for the future (as one partner is due to retire in two years)	Will probably be required to invest capital

(c) Using information provided, candidates were required to prepare a Goodwill account and capital accounts for the three partners. Traditional "T" accounts and three column running balance accounts were equally acceptable for both the Goodwill account and the capital accounts. It was pleasing to see many candidates saving valuable time by preparing "T" accounts for the partners' capital accounts in columnar format.

Goodwill adjustments varied considerably. Most candidates realised that adjustments for goodwill were necessary, but only a minority of candidates gained full marks. Once again, marks were lost by careless errors and lack of attention to detail such as descriptions and balancing.

Candidates often failed to produce a satisfactory answer to part **(i)** and showed a series of calculations instead of a ledger account.

This topic is obviously one which many candidates found difficult. It is recommended that candidates study the published answer to this question and also work through the relevant examples in standard accounting textbooks.

(d) Candidates were required to state two factors which may affect the value of a business's Goodwill. Common acceptable responses included the location of the business, the reputation of the business, and the experienced and reliable staff.

Question 5

Background information about two different businesses was provided, together with details of sales, cost of sales, expenses, debtors and creditors.

(a) Most candidates successfully calculated the percentage of gross profit to sales and the percentage of net profit to sales for each business.

Many candidates correctly calculated the collection period for debtors and the payment period for creditors for the second business. However, many candidates failed to give accurate calculations for the first business as they failed to recognise that these ratios use the *credit* sales and the *credit* purchases, respectively, not the total sales and purchases. Marks were also lost where candidates failed to specify days/weeks/months and simply gave a number, such as 35, which is meaningless.

(b) Candidates were asked to state four differences between the two businesses that would make it wrong to compare their results. A large number of candidates did successfully select four relevant reasons from the information given at the start of the question. Suitable responses included –

Different type of business (sole trader/partnership)

Different type of trade

Different type of expenses

Different volume of sales

Different length of time in business

A number of candidates attempted to explain why businesses in general should not be compared and failed to relate this to the two businesses that were the subject of the question. Other candidates appeared to have misread or misunderstood the question and actually attempted a comparison of the ratios calculated in **(a)**.