

# ACCOUNTING

Paper 0452/11

Paper 11

## Key Messages

**Question 1** consisted of ten multiple choice items, covering topics across the whole syllabus.

In **Question 2**, candidates were given five short-answer questions on a range of topics.

The main topics of **Question 3** were a sales ledger account, business documents, and cash and trade discount.

**Question 4** required candidates to have an understanding of a sales ledger control account. An understanding of provision for doubtful debts was also required.

To earn the available marks in **Question 5**, candidates had to have a thorough knowledge of the ledger entries to record the depreciation and disposal of non-current assets. The reasons for depreciation were also required.

The main theme of **Question 6** was single entry/incomplete records. Candidates were required to prepare a statement of affairs and to calculate bad debts and discount received. The preparation of an income statement was then required. Candidates were also required to name four interested parties. A calculation of the rate of inventory turnover and an associated theory question were also included.

Teachers and candidates will be aware that the examination papers use only “new” terminology. Candidates have not been penalised if they have used “old” terminology. It is important for teachers and candidates to be aware that candidates will be expected to use “new” terminology in future examinations.

## General Comments

All the questions on this examination paper were compulsory and covered various topics on the syllabus. It was anticipated that candidates would be able to attempt all the questions.

Candidates are reminded that a question can be set on any section of the syllabus, and a thorough knowledge of all sections of the syllabus is necessary to achieve a good grade in the examination.

It is important to work through questions on past examination papers and appropriate exercises in textbooks.

A number of candidates lost marks as they provided an incorrect figure without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates are advised to read through each question very carefully before attempting an answer. Marks will be lost if instructions are not followed. For example, marks were lost when candidates failed to follow an instruction to provide a calculation correct to two decimal places.

It is important to read through a question carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

Candidates are advised to think carefully about the answers they provide: this would often result in more marks being earned. It should be obvious that the valuation of inventory would not be a minus figure. Similarly it should be obvious that bad debts would not be more than the total sales for the year.

The spaces provided on the question paper for candidates’ answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on

the question paper. It is important that candidates indicate to Examiners that this has been done. For example a note “please refer to page.....” or “continued on page.....” would ensure that this additional work is not overlooked when the paper is being marked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “P” for “provision for doubtful debts”, and “P” for “profit for the year” are not acceptable.

The following comments should be read in conjunction with the question paper and the published mark scheme.

### **Comments on Specific Questions**

#### **Question 1**

This question consisted of ten multiple choice items, covering various questions on the syllabus. As usual there was a wide range of marks, with some candidates earning all the available marks.

In **(a)** it was expected that the majority of candidates would recognise that a credit note would be issued to reduce the amount charges on an invoice. Candidates should have recognised an error of principle and an error of omission in **(b)**. A significant number of candidates failed to appreciate that a debit balance on an expense account represents a prepayment. In **(f)** it was anticipated that candidates would recognise that goodwill is an intangible asset. It was expected that candidates would understand why a supplier is interested in the accounting statements of a customer in **(i)**. Part **(j)** involved a straightforward calculation of a trader’s capital and it was anticipated that the majority of candidates would select the key.

Candidates are reminded that it is wise to attempt all the multiple choice items rather than leaving some blank.

#### **Question 2**

This consisted of several short-answer questions based on various sections of the syllabus.

- (a)** Candidates were required to complete a table to classify five items between capital and revenue expenditure and capital and revenues. There were many wholly correct responses.
- (b)** Details of the cost, selling and distribution cost and selling price of three products were provided. Candidates were required to calculate the total value of each type of inventory. Whilst many candidates appear to understand that inventory is valued at the lower of cost and net realisable value, there were very few wholly correct responses. A common error was to ignore the selling and distribution costs. A reasonable number of candidates correctly stated that the value of Product A would be 600 units x \$15 (the cost price). Problems occurred on the calculation of the value of the Products B and C. Common incorrect answers were \$1200 for Product C and \$850 for Product C. A significant number of candidates offered minus figures for the inventory values.
- (c)** Stating three types of inventory held by a manufacturer should have been a relatively straightforward question. Many candidates did earn all the available marks. Weaker candidates incorrectly suggested opening and closing inventory. A few candidates incorrectly suggested types of raw materials a manufacturer may use such as wood, screws etc.
- (d)** Information was provided about the rent paid by a manufacturer and the amount outstanding at the year-end. The manufacturer apportioned the rent between the factory and the office. Candidates were required to state the amount of rent that would appear in the manufacturing account, the income statement and the balance sheet.

A significant number of candidates did not take the accrual into account and simply apportioned the amount paid. Some candidates lost the available marks by putting several figures in each section making it impossible to distinguish the final answer. Many candidates correctly stated the amount which would appear in the balance sheet.

- (e)** Candidates were required to name the section of a manufacturer’s income statement in which the cost of production would appear. Many candidates correctly stated that this item appears in the

trading account section. The most common incorrect responses were “cost of sales” and “profit and loss”.

### Question 3

This question was based on basic book-keeping knowledge. It required candidates to prepare a sales ledger account and answer theory questions on business documents, cash and trade discount.

- (a) A significant number of candidates correctly identified the sales journal and the sales returns journal. However, a number of candidates incorrectly referred to ledger accounts rather than books of prime entry. The more able candidates were aware that a statement of account is not recorded in the books.
- (b) Using data provided, candidates were required to write up the ledger account of a credit customer. Most candidates prepared a “T” account, but a three column running balance account was equally acceptable. There were many good answers.

A number of candidates could have gained more marks if they had used correct descriptions. “purchases” and “purchases returns” were often used instead of “sales” and “sales returns”, “cheque” was often used instead of “bank” or “cash” and sometimes even the names of the parties were used within the account. A small number of candidates use “bbd” for “balance” which is not acceptable.

Some candidates did not appreciate that trade discount does not appear in the ledger and that only the net amount of sales and sales returns is entered in the customer’s account.

- (c) Candidates were asked to explain why the trader offered trade discount and cash discount to his credit customer. The vast majority of candidates produced correct answers and were awarded all the available marks. A few candidates incorrectly stated that cash discount was allowed because payment was made in cash.

### Question 4

Firstly, candidates were required to complete a table showing where items would appear in a sales ledger control account. The rest of the question was based on the topic of provision for doubtful debts, including the calculation of the percentage rate of the provision a journal entry and some related theory questions.

- (a) Candidates were provided with a list of items which may appear in a sales ledger control account and had to indicate whether each item would be debited or credited to the account. There was a wide range of marks, but most candidates earned over half of the marks available.
- (b) The balance of the sales ledger control account the balance of the provision for doubtful debts account were provided and candidates were required to calculate the percentage rate of the provision. Most candidates successfully calculated the rate to be 2%.

One reason for the increase in the amount of the provision for doubtful debts was required. Many correctly suggested an increase in the amount of credit sales or an increase in the amount of trade receivables. Other acceptable answers were an increase in the rate of the provision and anticipation of higher bad debts in the following year.

A journal entry was required to record the change in the provision for doubtful debts. The income statement should have been debited and the provision for doubtful debts account should have been credited with the amount of \$636. Some candidates used the new provision of \$1560 rather than the amount by which the provision increased. A narrative should explain why the entry was required. Some candidates stated that one account was debited and the other credited which was not acceptable. Many candidates would benefit from extra practice on journal entries.

- (c) Candidates had to name and explain one accounting principle applied when a provision for doubtful debts is maintained. Most candidates were able to identify prudence as an accounting principle applied and offer an acceptable explanation. The accounting principle of matching was an equally acceptable response. Those who suggested this were often not able to provide an acceptable explanation and earned only one mark.

### Question 5

The topic of this question was depreciation and disposal of non-current assets. Candidates had to write up a non-current asset account, a provision for depreciation account and a disposal account and to answer a related theory question.

- (a) Candidates had to state three reasons – in addition to wear and tear – why non-current assets depreciate. Many candidates provided three acceptable reasons and earned full marks. A number of candidates simply repeated the reason given in the question. Some simply put “technology” but did not link this to the business’s non-current assets.
- (b) Using the information provided, candidates were required to prepare a machinery account and a provision for depreciation of machinery account for two years. Most candidates prepared “T” accounts, but three column running balance accounts were equally acceptable.

Whilst there were some wholly correct responses, a large number of candidates found this question difficult. Some candidates would benefit from further study on this topic.

The asset account should have been debited with the original purchase price of the three machines and then credited with the cost of the machine disposed of. The account should then have been balanced. The provision account should have been credited each year with a transfer to the income statement representing the depreciation for the year. The depreciation on the machine sold should have been debited and transferred to the disposal account. The account should have been balanced each year. Common errors included:

Entering the cost of only one machine not three in the asset account  
Including depreciation in the asset account  
Calculating the annual depreciation incorrectly  
Not entering the depreciation on the machine sold on the debit of the provision account  
Entering an incorrect figure for the depreciation on the machine sold  
Omitting dates or using incorrect dates  
Using inappropriate descriptions such as “bbd” for “balance” and “cheque” for “bank”

- (c) Candidates were required to prepare a disposal account to record the disposal of one of the machines. Either a “T” account or a three column running balance account was acceptable. Most candidates managed to earn some of the available marks for the account. Once again, there were some incorrect descriptions. Most candidates appreciated that this account was closed by a transferring the profit or loss on disposal to the income statement.

### Question 6

Firstly, candidates were required to prepare a statement of affairs. Using information provided, candidates were then required to calculate the bad debts written off and the discount received. An income statement then had to be prepared. The rate of inventory turnover had to be calculated and a related theory question answered. Short theory questions on depreciation and interested parties were also included.

- (a) Candidates were provided with a list of the assets and liabilities of a trader who had not maintained proper accounting records. A statement of affairs had to be prepared. Most candidates realised that the difference between the assets and liabilities represented the trader’s capital. A common error was not showing that part of the loan was a current liability and the remainder was a non-current liability. Despite this, the majority of candidates earned more than half of the available marks. A small number attempted to prepare a trial balance rather than the statement of affairs required.
- (b) Using the total credit sales, the opening and closing trade receivables, and the cash received from credit customers, candidates were required to calculate the bad debts written off. An arithmetic calculation or a total trade receivables account was equally acceptable. Many candidates managed to earn two of the available marks, but the calculations gave the impression that many candidates did not understand which figures should be included and how those figures should be treated. The calculation of “missing” figures is a topic on which many candidates would benefit from extra practice.

- (c) Using the total purchases, the opening and closing trade payables, and the cash paid to credit suppliers, candidates were required to calculate the discount received. An arithmetic calculation or a total trade payables account was equally acceptable. Many candidates did not understand which figures should be included and how those figures should be treated. Again, many candidates managed to earn two of the available marks. However, as with Part (b), many earned these marks because they happened to show two correct figures in a mass of irrelevant information.
- (d) Candidates were required to prepare an income statement. Most candidates were able to earn some of the available marks. Common errors included:
- Including cash received from credit customers instead of credit sales
  - Including cash paid to credit suppliers instead of credit purchases
  - Omitting the opening inventory
  - Omitting the discount received
  - Omitting the bad debts
  - Adjusting the insurance only for the closing prepayment and ignoring the opening prepayment
  - Including the loan repayment as an expense
  - Including drawings as an expense
- (e) An explanation why the trader was providing depreciation on his non-current assets was required. Many candidates did manage to explain that the aim of depreciation was to spread the cost of the non-current asset over its useful life.
- (f) The vast majority of candidates were able to suggest four interested parties who might want to see the trader's accounts. Incorrect responses included shareholders, directors and partners.
- (g) Using the cost of sales from the income statement and the opening and closing inventory, candidates were required to calculate the rate of inventory turnover. Many candidates applied the correct formula and earned all or most of the available marks. A small number of candidates used the closing inventory rather than the average inventory in the calculation. A few did not provide a figure correct to two decimal places.
- (h) Candidates were required to compare the trader's rate of inventory turnover with that of another business and to state which business had the better rate. The vast majority of candidates gave a correct response based on their answer to Part (g).
- A reason for the difference in the rate of inventory turnover of the two businesses was required. Very few candidates recognised that for inventory to turnover faster the business has to sell at a faster rate. Incorrect responses included buying cheaper products, giving discounts, having a lower amount of inventory or selling different types of goods (despite the question saying that they were similar businesses).

# ACCOUNTING

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**Paper 0452/12**

**Paper 12**

## **Key Messages**

Teachers and candidates will be aware that the examination papers use only “new” terminology. Candidates have not been penalised if they have used “old” terminology. It is important for teachers and candidates to be aware that candidates will be expected to use new terminology in future examinations.

Accounting is a subject that requires accuracy and precision. Marks are available for giving correct numerical answers but where questions require analysis or decision taking, it is important for candidates to be able to give written descriptions or advice. It is also important to answer the question and not to give additional answers which are not required.

The application of accounting principles to the keeping of books of account (such as ledger accounts) is an important part of the subject at this level and marks were available for accurate and careful answers to the question on this topic.

A sound knowledge of definitions or explanations of accounting theory will enable candidates to express this knowledge and to apply it in the structured questions.

## **General Comments**

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

A number of candidates lost marks because they provided an incorrect answer without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should read through each question very carefully before attempting an answer. Marks will be lost if instructions are not followed. For example, marks were lost when candidates failed to follow an instruction to provide a calculation correct to two decimal places.

It is important to read through a question carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

The spaces provided on the question paper for candidates’ answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate to examiners that this has been done. For example a note “please refer to page.....” or “continued on page.....” would ensure that this additional work is not overlooked when the paper is being marked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “P” for “Profit for the year” and “I” for “interest on capital” are not acceptable.



The following comments should be read in conjunction with the question paper and the published mark scheme.

### Comments on specific questions

#### Question 1

This question comprised ten multiple choice questions, and performance varied. Items **(e) and (f)** were well answered; items **(d) and (g)** appeared the most challenging.

#### Question 2

This question consisted of a number of short answer questions from across the syllabus and candidates performed particularly well on **parts (a), (c) and (d)**; reasonably well on **parts (b) and (e)**, but found **part (f)** difficult.

**Part (a)** required candidates to state the accounting equation. Many candidates found this question easy. The use of the term 'equity' instead of 'capital' was not acceptable.

In **Part (b)** candidates were required to explain the difference between book-keeping and accounting. There were many acceptable answers, but some were too vague to be awarded any marks. Some candidates were able to give an explanation of book-keeping as the recording of financial transactions, but struggled to give an adequate description of accounting.

**Part (c)** required candidates to complete a trial balance, showing the capital account balance. Many candidates scored well in this section, though there were some confused answers, resulting in a debit capital figure.

**Part (d)** asked candidates to explain two errors which would not affect the balancing of a trial balance. Well-prepared candidates were able to name two errors and give good explanations; other candidates either named and explained only one error, or named two errors but gave no explanations. Errors of 'omission' and 'compensating' were the most frequently named. Errors of 'commission' and 'principle' were the most poorly explained, with attempts at examples being given rather than explanations.

In **Part (e)** candidates were asked to prepare a capital account. Although there were many acceptable answers, some candidates did find this question difficult, the main errors being reversing the entries, failing to transfer the capital from the trial balance, omitting the drawings and incorrect account descriptions.

**Part (f)** requested candidates to state two ways in which accounting information could be used. This question was very poorly answered with many candidates disappointingly stating 'the preparation of the profit and loss account and balance sheet' as uses. The most common correct answer was for comparison purposes - with previous years and other businesses.

#### Question 3

This question also consisted of a number of short answer questions. Candidates produced good responses to **parts (a), (b) and (d)**, reasonable answers to **parts (c)(i) and (c)(iii)**, but had difficulty with **part (c)(ii)**.

**Part (a)** required candidates to name the accounting principles described in a table. There were many excellent responses to this question.

**Part (b)** required candidates to refer to an invoice and state why a sole trader allowed a customer a trade discount. There were many excellent responses to this question, mainly referring to 'bulk buying'.

Many candidates correctly calculated the cash discount in **Part (c)(i)**, although a common error was to multiply 75 by 5%.

**Part (c)(ii)** required candidates to show how the cash discount calculated in **(c)(i)** would be recorded in the books of account. Candidates displayed a poor understanding and seemed to misunderstand that two ledger accounts had to be named and it was common to see 'ticks' in the boxes. Frequently the two account names were transposed and the discount was not identified as 'allowed'.

**Part (c)(iii)** required candidates to state why the sole trader allowed the customer the cash discount. Many candidates correctly responded, referring to 'prompt payment'.

Excellent responses were given to **Part (d)**, where candidates were required to place a tick in a table to indicate whether each business listed was a trading or a service business.

#### Question 4

For this question, from given information, candidates were required to prepare a manufacturing account, calculate the cost of sales as it would appear in an income statement and calculate the sales revenue for the year.

Responses to the manufacturing account in **Part (a)** were generally very good, with many fully correct answers. Candidates did not always pay full attention to the layout requirements, forgetting to put sub headings in such as 'cost of materials consumed' and 'prime cost' and 'cost of production', for which marks were awarded. Some candidates treated the manufacturing account similarly to an income statement, deducting factory overheads from the prime cost. Other common errors were to include 'Other sales and administration costs' and 'Work-in-progress' in factory overheads.

**Part (b)**, the calculation of the cost of sales, was reasonably well answered with many candidates correctly using the cost of production and finished goods figures. The most common error was candidates repeating the calculation for cost of materials consumed.

In **Part (c)**, the sales revenue calculation, the main error was candidates calculating the mark-up correctly, but not adding it to the cost to arrive at the correct sales revenue figure.

#### Question 5

This question required the preparation of ledger accounts and tested the fundamental principles of double entry. Reasonable responses were given to **parts (b) and (c)**, but candidates found **parts (a) and (d)** difficult.

In **Part (a)** most candidates found this question hard and responses were confused and varied.

**Part (b)** required the preparation of three ledger accounts which included opening and closing accrual and prepayment entries. As with all questions requiring calculation and writing up of accounts, candidates need to pay close attention to detail; for example, entries in ledger accounts must be on the correct (debit or credit) side, and must show the correct date and details. Although many candidates gave correct entries, some reversed the debits and credits thereby losing marks; recorded the opening and closing accruals and prepayments on the incorrect sides; gave incorrect account names and omitted the transfers to the income statement. Although it is important to show correct dates, it is possible to earn most of the available marks even if dates shown are incorrect or dates are omitted. The detail 'c/d' and 'b/d' instead of 'balance c/d' and 'balance b/d' is not acceptable.

Many candidates gave acceptable answers to **Part (c)**, correctly identifying the balance sheet heading and item for 'commission payable' and 'stationery'.

**Part (d)**, where candidates were asked to prepare journal entries to correct a cash book error, was in general very poorly attempted. The detail 'cash book' was frequently used instead of 'cash'; an unnecessary 'suspense account' was common; entries were reversed and the figures were an incorrect mixture of 250, 150 and 100.

#### Question 6

In this question candidates were required to carry out calculations for and interpret the current and quick ratio of a limited company from given information. An appropriation Account was also required, together with an explanation of accounting terminology for limited company accounts. Candidates on the whole found the question challenging.

**Part (a)(i)** required the calculation of the current ratio. Most candidates performed the calculations correctly, the main error being failure to state the answer to two decimal places.



**Parts (a)(ii)** asked for a reason for the change in the current ratio. Candidates had difficulty explaining a reason and many answers were vague, with candidates merely stating that 'current assets had decreased' or 'current liabilities had increased'. The most common correct answer was to identify the bank overdraft.

**Part (b)(i)** required the calculation of the quick ratio and many candidates performed the calculations correctly, the main error being failure to state the answer to two decimal places.

**Part (b)(ii)** asked for one possible effect of the change in the quick ratio. Few acceptable answers were given, many candidates giving the 'reasons' for the change in the quick ratio rather than the 'effect' of the change. The most common correct answer was to identify the inability to pay debts when due.

**Part (c)** was poorly-answered, with many candidates stating incorrectly that 'the owner had taken drawings'. The purchase of non-current assets and inventory were the most common correct responses.

**Part (d)** required candidates to prepare an appropriation account. Generally the layout of the accounts was poor. Most candidates were unable to calculate the ordinary shares dividend correctly and figures of 3000 and 4000 were frequently used. A common error was to add the retained profit c/f for the year into the account, instead of treating it as the final, given figure.

**Part (e)** asked candidates to explain why a general reserve is created. In general, explanations were very poor, many confusing setting aside profit as 'money to be used in an emergency/to cover losses'.

**Part (f)** required candidates to explain the difference between authorised and issued share capital and many candidates offered good responses, clearly explaining the differences between the two types of capital. Some candidates were able to explain authorised capital as being the maximum number of shares allowed to be issued, but struggled to explain the meaning of issued share capital.

# ACCOUNTING

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Paper 0452/13

Paper 13

## Key Messages

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In **Question 2**, candidates were given five short-answer questions on a range of topics.

The main topics of **Question 3** were a sales ledger account, business documents, and cash and trade discount.

**Question 4** required candidates to have an understanding of a sales ledger control account. An understanding of provision for doubtful debts was also required.

To earn the available marks in **Question 5**, candidates had to have a thorough knowledge of the ledger entries to record the depreciation and disposal of non-current assets. The reasons for depreciation were also required.

The main theme of **Question 6** was single entry/incomplete records. Candidates were required to prepare a statement of affairs and to calculate bad debts and discount received. The preparation of an income statement was then required. Candidates were also required to name four interested parties. A calculation of the rate of inventory turnover and an associated theory question were also included.

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A significant number of candidates did not take the accrual into account and simply apportioned the amount paid. Some candidates lost the available marks by putting several figures in each section making it impossible to distinguish the final answer. Many candidates correctly stated the amount which would appear in the balance sheet.

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Some candidates did not appreciate that trade discount does not appear in the ledger and that only the net amount of sales and sales returns is entered in the customer’s account.

- (c) Candidates were asked to explain why the trader offered trade discount and cash discount to his credit customer. The vast majority of candidates produced correct answers and were awarded all the available marks. A few candidates incorrectly stated that cash discount was allowed because payment was made in cash.

### Question 4

Firstly, candidates were required to complete a table showing where items would appear in a sales ledger control account. The rest of the question was based on the topic of provision for doubtful debts, including the calculation of the percentage rate of the provision a journal entry and some related theory questions.

- (a) Candidates were provided with a list of items which may appear in a sales ledger control account and had to indicate whether each item would be debited or credited to the account. There was a wide range of marks, but most candidates earned over half of the marks available.
- (b) The balance of the sales ledger control account the balance of the provision for doubtful debts account were provided and candidates were required to calculate the percentage rate of the provision. Most candidates successfully calculated the rate to be 2%.

One reason for the increase in the amount of the provision for doubtful debts was required. Many correctly suggested an increase in the amount of credit sales or an increase in the amount of trade receivables. Other acceptable answers were an increase in the rate of the provision and anticipation of higher bad debts in the following year.

A journal entry was required to record the change in the provision for doubtful debts. The income statement should have been debited and the provision for doubtful debts account should have been credited with the amount of \$636. Some candidates used the new provision of \$1560 rather than the amount by which the provision increased. A narrative should explain why the entry was required. Some candidates stated that one account was debited and the other credited which was not acceptable. Many candidates would benefit from extra practice on journal entries.

- (c) Candidates had to name and explain one accounting principle applied when a provision for doubtful debts is maintained. Most candidates were able to identify prudence as an accounting principle applied and offer an acceptable explanation. The accounting principle of matching was an equally acceptable response. Those who suggested this were often not able to provide an acceptable explanation and earned only one mark.

### Question 5

The topic of this question was depreciation and disposal of non-current assets. Candidates had to write up a non-current asset account, a provision for depreciation account and a disposal account and to answer a related theory question.

- (a) Candidates had to state three reasons – in addition to wear and tear – why non-current assets depreciate. Many candidates provided three acceptable reasons and earned full marks. A number of candidates simply repeated the reason given in the question. Some simply put “technology” but did not link this to the business’s non-current assets.
- (b) Using the information provided, candidates were required to prepare a machinery account and a provision for depreciation of machinery account for two years. Most candidates prepared “T” accounts, but three column running balance accounts were equally acceptable.

Whilst there were some wholly correct responses, a large number of candidates found this question difficult. Some candidates would benefit from further study on this topic.

The asset account should have been debited with the original purchase price of the three machines and then credited with the cost of the machine disposed of. The account should then have been balanced. The provision account should have been credited each year with a transfer to the income statement representing the depreciation for the year. The depreciation on the machine sold should have been debited and transferred to the disposal account. The account should have been balanced each year. Common errors included:

Entering the cost of only one machine not three in the asset account  
Including depreciation in the asset account  
Calculating the annual depreciation incorrectly  
Not entering the depreciation on the machine sold on the debit of the provision account  
Entering an incorrect figure for the depreciation on the machine sold  
Omitting dates or using incorrect dates  
Using inappropriate descriptions such as “bbd” for “balance” and “cheque” for “bank”

- (c) Candidates were required to prepare a disposal account to record the disposal of one of the machines. Either a “T” account or a three column running balance account was acceptable. Most candidates managed to earn some of the available marks for the account. Once again, there were some incorrect descriptions. Most candidates appreciated that this account was closed by a transferring the profit or loss on disposal to the income statement.

### Question 6

Firstly, candidates were required to prepare a statement of affairs. Using information provided, candidates were then required to calculate the bad debts written off and the discount received. An income statement then had to be prepared. The rate of inventory turnover had to be calculated and a related theory question answered. Short theory questions on depreciation and interested parties were also included.

- (a) Candidates were provided with a list of the assets and liabilities of a trader who had not maintained proper accounting records. A statement of affairs had to be prepared. Most candidates realised that the difference between the assets and liabilities represented the trader’s capital. A common error was not showing that part of the loan was a current liability and the remainder was a non-current liability. Despite this, the majority of candidates earned more than half of the available marks. A small number attempted to prepare a trial balance rather than the statement of affairs required.
- (b) Using the total credit sales, the opening and closing trade receivables, and the cash received from credit customers, candidates were required to calculate the bad debts written off. An arithmetic calculation or a total trade receivables account was equally acceptable. Many candidates managed to earn two of the available marks, but the calculations gave the impression that many candidates did not understand which figures should be included and how those figures should be treated. The calculation of “missing” figures is a topic on which many candidates would benefit from extra practice.

- (c) Using the total purchases, the opening and closing trade payables, and the cash paid to credit suppliers, candidates were required to calculate the discount received. An arithmetic calculation or a total trade payables account was equally acceptable. Many candidates did not understand which figures should be included and how those figures should be treated. Again, many candidates managed to earn two of the available marks. However, as with Part (b), many earned these marks because they happened to show two correct figures in a mass of irrelevant information.
- (d) Candidates were required to prepare an income statement. Most candidates were able to earn some of the available marks. Common errors included:
- Including cash received from credit customers instead of credit sales
  - Including cash paid to credit suppliers instead of credit purchases
  - Omitting the opening inventory
  - Omitting the discount received
  - Omitting the bad debts
  - Adjusting the insurance only for the closing prepayment and ignoring the opening prepayment
  - Including the loan repayment as an expense
  - Including drawings as an expense
- (e) An explanation why the trader was providing depreciation on his non-current assets was required. Many candidates did manage to explain that the aim of depreciation was to spread the cost of the non-current asset over its useful life.
- (f) The vast majority of candidates were able to suggest four interested parties who might want to see the trader's accounts. Incorrect responses included shareholders, directors and partners.
- (g) Using the cost of sales from the income statement and the opening and closing inventory, candidates were required to calculate the rate of inventory turnover. Many candidates applied the correct formula and earned all or most of the available marks. A small number of candidates used the closing inventory rather than the average inventory in the calculation. A few did not provide a figure correct to two decimal places.
- (h) Candidates were required to compare the trader's rate of inventory turnover with that of another business and to state which business had the better rate. The vast majority of candidates gave a correct response based on their answer to Part (g).
- A reason for the difference in the rate of inventory turnover of the two businesses was required. Very few candidates recognised that for inventory to turnover faster the business has to sell at a faster rate. Incorrect responses included buying cheaper products, giving discounts, having a lower amount of inventory or selling different types of goods (despite the question saying that they were similar businesses).



# ACCOUNTING

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Paper 0452/21

Paper 21

## Key Messages

Teachers and candidates will be aware that the examination papers use only “new” terminology. Candidates have not been penalised if they have used “old” terminology. It is important for teachers and candidates to be aware that candidates will be expected to use new terminology in future examinations.

**Question 1** required candidates to be able to prepare a petty cash book and to be able to answer associated theory questions. Some small theory questions on bank reconciliation were also included.

To earn full marks in **Question 2** candidates had to prepare an income statement of a manufacturing business, prepare journal entries for year-end transfers, and write up an expense account. Knowledge of accounting principles and correction of profit was also required.

**Question 3** required candidates to prepare a trial balance and state the entries necessary to correct some errors. Knowledge of accounting principles and the division of the ledger was also required.

To earn the available marks in **Question 4** candidates had to have a thorough understanding of limited company accounts. Having calculated the retained profit for the year, candidates had to prepare a statement of financial position. Related theory questions were also included. Candidates were also required to calculate and understand liquidity ratios.

**Question 5** required candidates to prepare a statement of corrected profit and then prepare the appropriation account of a partnership. Theory questions related to partnerships were also included. An understanding of the gross and net profit margins was also required.

## General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

A number of candidates lost marks because they provided an incorrect answer without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should read through each question very carefully before attempting an answer. Marks will be lost if instructions are not followed. For example, marks were lost when candidates failed to follow an instruction to provide a calculation correct to two decimal places.

It is important to read through a question carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

Candidates are advised to think carefully about the answers they provide: this would often result in more marks being earned. Where a column is headed with a dollar sign candidates should realise that an amount of money is required rather than just a tick. It should be obvious that the gross profit would not be greater

than the sales. Similarly, candidates should appreciate that it is not possible to pay out more cash than is actually available.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate to examiners that this has been done. For example a note "please refer to page....." or "continued on page....." would ensure that this additional work is not overlooked when the paper is being marked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" for "balance brought down", "P" for "Profit for the year" and "I" for "interest on capital" are not acceptable.

The following comments should be read in conjunction with the question paper and the published mark scheme.

### **Comments on Specific Questions**

#### **Question 1**

Candidates were required to prepare a petty cash book and answer related theory questions. An understanding of bank reconciliation was also required.

- (a) Two reasons for maintaining a petty cash book were required. Some candidates earned both the available marks: other candidates did not appear to appreciate the relationship between the cash book and the petty cash book.
- (b) One advantage of the imprest system of petty cash was required. Again, the more able candidates provided good answers. Other candidates described the imprest system instead of suggesting an advantage of this system.
- (c) Using information provided, candidates were required to write up a petty cash book. It was expected that this would be a question on which candidates could earn relatively high marks. There were some excellent answers with many candidates gaining good marks. Some candidate made basic errors resulting in the loss of marks. Common errors included:
- regarding the repayment of the loan as a payment rather than a receipt
  - using incorrect descriptions e.g. "restore" in lieu of "cash" or "bank"
  - not totalling the total columns and/or the analysis columns
  - not balancing the book at the month-end
  - showing a credit balance brought down at the start of the next month
  - not making an entry for the restoration of the imprest or recording an incorrect amount.
- (d) An explanation was required on how the double entry would be completed for the items shown in the postages column of the petty cash book. It was expected that candidates would explain that the total of the column is debited to the postages account at the end of the month. Many candidates gave partially correct answers, often omitting to emphasise that it was the total of the column which was transferred at the month-end.
- (e) Candidates were required to state two items which may appear in the cash book but not on the bank statement. Cheques not yet presented and cheques not yet credited were popular correct responses. A large number of candidates put "bank lodgements", which was not regarded as acceptable. There could be several amounts paid into the bank each month it is necessary to explain which of these would not appear on the bank statement.
- (f) Two items which may appear on the bank statement but not in the cash book were required. Most candidates provided acceptable answers and earned the two available marks. Popular correct answers were bank charges and dishonoured cheques. A few candidates suggested "loan interest". This was not regarded as adequate as this does not necessarily have any direct link to the bank.

## Question 2

Candidates were required to prepare an income statement for a manufacturing business and to answer a related theory question. Journal entries to record year-end transfers and an expense account were also required. Candidates also had to demonstrate an understanding of accounting principles and the effect an error would have on the profit for the year.

- (a) Many candidates used the data provided and prepared a wholly correct income statement. Other candidates did not appreciate that the inventories of raw materials and work in progress should not appear in an income statement. A few candidates omitted the cost of production, including only revenue, purchases and closing inventory, resulting in the gross profit being greater than the revenue.
- (b) Candidates were required to state two reasons why a manufacturer may purchase finished goods. The majority of candidates provided acceptable answers and earned the available marks.
- (c) Journal entries to show two year-end transfers were required. A significant number of candidates reversed the entries. Some candidates attempted to record the payment of money for carriage outwards rather than the year-end transfer to income statement. A number of candidates did not include narratives.
- (d) Using information provided, a motor insurance account had to be prepared. Candidates were informed that part of the insurance paid related to the owner's private motor. Many candidates did not appreciate that this should have been transferred from the expense account to the drawings account. Of the amount remaining in the expense account, \$270 (9 months) should have been transferred to the income statement and \$90 (3 months) which was prepaid should have been carried down as a debit balance to start the next financial year.
- (e) An explanation was required of how the accruals (matching) principle was applied in the preparation of the motor insurance account. Many candidates did correctly explain that the accruals (matching) principle requires that revenue for the period is matched against the costs of the same period. This should have been linked to the motor insurance account where only the expense for the year was transferred to the income statement.
- (f) Candidates were required to indicate by how much the profit for the year would be overstated or understated by the omission of the motor insurance from the income statement. This should have been linked to the answer in Part (d), but some candidates provided figures which could not be traced to the ledger account produced earlier. A significant number of candidates inserted a tick in one of the columns rather than an amount of money.
- (g) The majority of candidates gained a mark for identifying the business entity principle. Only a few candidates went on to explain that only business transactions are recorded in the books of the business.

## Question 3

Candidates were required to prepare a trial balance and to complete a table showing entries required to correct various errors. The question also included accounting principles and the division of the ledger.

- (a) A trial balance had to be completed from a given list of balances. This should have been a relatively straightforward question. It was expected that candidates would appreciate that only the opening inventory should be included in the trial balance: a large number of candidates included both inventories (either the total or the difference between them) or included only the closing inventory. Most candidates correctly identified that the difference on a trial balance is transferred to the suspense account. Some incorrectly described this difference as "balance", "difference", and "appropriation account".
- (b) A list of errors discovered after the preparation of the trial balance was provided. A table had to be completed to show the debit and credit entries to correct these errors. In (i) a significant number of candidates credited "capital expenditure" instead of a non-current asset account. A common error in (ii) was to debit petty cash. No debit entry was required to correct this error. A few candidates incorrectly credited the purchases returns journal rather than the purchases returns account in (iv). To correct the error in (v) the amount of \$25 should have been doubled.

- (c) Candidates were required to select one error and explain why it would not affect the balancing of the trial balance. The first error, which was an error of omission, did not affect the balancing of the trial balance. The second error, which was an error of principle, also did not affect the balancing of the trial balance. A popular incorrect response was the petty cash balance omitted from the trial balance (error (iii)).
- (d) The accounting principle applied in a given situation should have been identified as the money measurement principle. From the variety of answers, many candidates did not appear to recognise the principle being described.
- (e) A second accounting principle had to be identified from a given scenario. Many correctly identified this as the realisation principle. Once again, there was a variety of incorrect responses.
- (f) One advantage of dividing the ledger into three sections was required. Many candidates offered acceptable responses, the most common one being to divide the work.

One example of an account which may appear in each section of the ledger was required. Again, there were many correct responses. Some candidates incorrectly suggested that the sales account or sales returns account would appear in the sales ledger, and the purchases account or purchases returns account would appear in the purchases ledger. A few suggested "customer account" and "supplier account" without reference to "credit customer" or "credit supplier".

#### Question 4

The main topic of this question was limited companies. Candidates were required to calculate the retained profit for the year, prepare a statement of financial position and answer related theory questions. The question also included the calculation and interpretation of accounting ratios.

- (a) Candidates were required to calculate the retained profit for the year. The answer could be either in the form of an arithmetic calculation or an appropriation account. Some candidates did not deduct the debenture interest, despite the question stating that this had not been accounted for. Most candidates correctly deducted the transfer to reserve and an ordinary share dividend – though there were many incorrect calculations of the amount of dividend.
- (b) A statement of financial position for a limited company was required. There were some very good responses, but a number of candidates did not present the statement in an acceptable form. Common errors included:

not deducting the provision for doubtful debts from the trade receivables  
showing trade receivables as a liability and trade payables as an asset  
omitting accrued debenture interest or including it as a non-current liability  
including debentures within the capital and reserves section.

- (c) Using the statement prepared in (b), candidates were required to calculate the current ratio and the quick ratio. The majority of candidates used the current assets and the current liabilities from their statement and were able to earn all the available marks. A few did not show the answers correct to two decimal places.

Candidates were required to explain the importance of the quick ratio. Many answers were limited to a statement of how this ratio is calculated rather than explaining how it is a measure of liquidity, showing whether the company can pay its immediate liabilities from its liquid assets.

Two ways in which the quick ratio could be increased had to be suggested. Many suggested increasing current assets and reducing current liabilities. These were not acceptable responses. Some candidates failed to relate their answer to the limited company mentioned in the question and suggested that the owner should invest more capital from his/her private funds or should reduce his/her drawings.

- (d) Two features of ordinary shares were required. Most candidates earned the available marks. Answers such as "get their money last" could have been improved by being more precise.

- (e) Two features of debentures were required. Most candidates earned the available marks. Once again, some answers were rather imprecise.

### Question 5

This question was based on partnership accounts. Profit correction and the understanding of accounting ratios were also included.

- (a) Candidates were informed that errors were discovered after the calculation of the profit for the year. A statement of corrected profit was required. Most candidates showed their calculations and were able to earn some of the available marks. A number of candidates did not include the original profit so it was impossible to understand whether the adjustments resulted in an increase or a decrease.
- (b) Using the profit calculated in (a), candidates were required to prepare an appropriation account of a partnership. Most candidates understood the format of an appropriation account and earned some of the available marks. Common errors included:
- including extraneous items such as capital
  - incorrect calculation of Tom's interest on capital
  - incorrect calculation of Gill's salary
  - omission or incorrect labelling of Tom's additional profit share
- (c) Candidates were required to state one reason why partners receive interest on capital and are charged interest on drawings. Most candidates gained both the available marks.
- (d) Information was provided on the gross profit margin for two years. Candidates were required to suggest two reasons for the change in the gross profit margin. Many candidates correctly suggested an increase in the selling price or a decrease in the cost price. Some candidates incorrectly referred to quantities, suggesting an increase in the amount of sales or a decrease in the amount of purchases.
- (e) Using the information provided on the gross profit margin and the net profit margin for two years, candidates were required to state, giving a reason, the year in which the partners had better control of expenses. It was evident that a large number of candidates do not understand the relationship between the gross profit percentage and the net profit percentage.

# ACCOUNTING

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Paper 0452/22

Paper 22

## **Key Messages**

Teachers and candidates will be aware that the examination papers use only “new” terminology. Candidates have not been penalised if they have used “old” terminology. It is important for teachers and candidates to be aware that candidates will be expected to use new terminology in future examinations.

Accounting is a subject which requires accuracy and precision. Marks are available for giving correct numerical answers but it is important that candidates are able to analyse information and provide appropriate advice in give scenarios. Candidates are reminded that it is important to answer the question being asked. No marks are available for additional responses.

The application of accounting principles to maintaining books of account (such as the cash book or ledger accounts) is an important part of the subject at this level and candidates need to be able to present these accounting records in an appropriate manner.

In order to gain high marks, candidates require a sound knowledge of definitions and accounting theory. For example, marks were available to those who were aware that the return on capital employed should be expressed as a percentage.

## **General Comments**

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

A number of candidates lost marks because they provided an incorrect answer without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should read through each question vary carefully before attempting an answer. Marks will be lost if instructions are not followed. For example, marks were lost when candidates failed to follow an instruction to provide a calculation correct to two decimal places.

It is important to read through a question carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

The spaces provided on the question paper for candidates’ answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate to examiners that this has been done. For example a note “please refer to page.....” or “continued on page.....” would ensure that this additional work is not overlooked when the paper is being marked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as “bbd” for “balance brought down”, “P” for “Profit for the year” and “I” for “interest on capital” are not acceptable.



The following comments should be read in conjunction with the question paper and the published mark scheme.

### Comments on specific questions

#### Question 1

This section of the paper consisted of two questions relating to the preparation of an income statement for a sole trader and a question requiring candidates to analyse different errors in order to show their effect on profit.

Marks awarded varied considerably and there seemed to be a correlation between the marks gained on this section and overall marks for the whole paper. Most candidates gained some marks in **part (a)** and were able to show at least a basic understanding of how net profit should be calculated. Many of the items to be included in the income statement required some additional calculation such as depreciation or adjustments for accruals. This did provide the more able candidates with an opportunity to demonstrate their understanding and a wide spread of marks was awarded for this question. **Part (b)** required candidates to determine what effect different errors made in the accounts would have on overall profit. Most candidates were able to identify the effect of not valuing the stationery inventory and many also correctly identified that not including the loan interest or increased provision for bad debts meant that profit would have been overstated. The more able candidates gained extra marks as they also managed to calculate the correct interest for the three month period and the increase in provision for bad debts.

#### Question 2

This question tested candidates' understanding of accounting theory and techniques' relating to non-profit making concerns such as social clubs. Simple calculations were also required.

**Part (a)** required candidates to prepare a receipts and payments account for a music club. This was quite well answered and almost all candidates gained some marks. Better prepared candidates achieved higher marks by including the income from the sale of instruments rather than the profit from this sale. Candidates showing understanding of general accounting principles were able to gain marks for correct use of dates and balances b/d. Answers for **part (b)** were generally not as good as some candidates included income from all the music club activities rather than just the cafe. The more able candidates did calculate the expenses figures correctly and also gained marks for correct terminology such as net profit rather than surplus as this part of the club was intended to be a profit-making venture.

#### Question 3

This question tested candidates' understanding of accounting theory relating to banking and the accounts associated with maintaining banking records. Candidates were asked to prepare extracts from the cash book and prepare a bank reconciliation statement.

**Part (a)** required candidates to explain the difference between a dishonoured cheque and an un-presented cheque. Candidates usually provided satisfactory explanations of dishonoured cheques but significant numbers used slang expressions such as "bounced" without always demonstrating that they understood what this term meant. Explanations for un-presented cheques were often weaker and candidates often thought that this was because the cheque hadn't been sent out yet or not yet written up in the business's cash book. **Part (b)** required candidates to explain the difference between standing orders and direct debits. Marks for this question were only achieved by well prepared candidates and many candidates frequently gained no marks. Good answers explained that standing orders involved instructing the bank to pay regular, fixed amounts to other organisations whereas the amounts involved in direct debits could be varied as requested by the payee. In **Part (c)**, all reasonably well prepared candidates were able to include some of items needed in the revised cash book. Additional marks were gained by those candidates able to include suitable labelling for their entries instead of simply describing the transactions. The cash book is part of the double-entry system and marks were given to those candidates who used suitable double-entry account names in their answers. **Part (d)** required candidates to prepare a bank reconciliation statement. Answers were variable for this question and whilst many candidates were able to identify the correct items to be included in the statement only the more competent were able to determine whether these items needed to be added to or subtracted from opening balances. Candidates were asked to explain entries appearing in a capital account for **Part (e)**. Candidates usually achieved some marks for this question as it was fairly

obvious that one part of the explanation should relate to changes in capital. There was a good spread of marks though as other candidates could normally identify where additional capital had been invested and the best candidates were also able to determine that drawings had been taken in the form of goods for own use.

#### Question 4

This question was principally about incomplete records but also involved some application of accounting theory, concepts, and users of accounting information.

**Part (a)** required candidates to calculate credit purchases for a business from incomplete records. **Part (b)** was similar but required candidates to calculate the amount received from credit customers and in **Part (c)** candidates were asked to calculate expenses paid. Most candidates recognised some of the items that needed to be included in each of the calculation of this figure and the better candidates were also able to determine if the items should be added or subtracted. Double-entry accounts were not necessary as the question only asked for calculations of the different figures but many candidates chose to use double-entry accounts for their calculations in **(a)** and **(b)**. Whilst no additional marks were given for these answers they were usually more accurate and candidates with the skill to prepare these accounts often gained better marks. **Part (d)** required candidates to state two reasons for valuing inventory at its net realisable value. The majority of candidates stated that this was because inventory should be valued at the lower of cost and net realisable value. The second reason given was usually to follow the prudence concept or to avoid overstating profit. This was a well answered question and many candidates gained all four marks. In **Part (e)** most candidates were able to correctly identify the effect on profit of errors in valuing inventory in the current year but only the more competent were also able to identify the effect of the error in a future year. Candidates were asked to give reasons why a business would be interested in potential credit customer's financial statements for **Part (e)**. Virtually all candidates gained the two marks for this question and the most popular answer was to assess the liquidity position to ensure that they would be paid back what was owed. Other less common but acceptable answers related to setting a suitable credit limit or to examine the future prospects of the business.

#### Question 5

This question concentrated on credit transactions and the importance of working capital.

Candidates were required in **part (a)** to state the purpose of the collection period for trade receivables, almost all properly prepared candidates recognised that this was to identify the average time taken for trade receivables to pay their accounts. **Parts (b)** and **(c)** then required candidates to interpret the figures provided to comment on how satisfactory they were. **Part (a)** was very well answered and most candidates recognised that the figure was unsatisfactory the credit period had been exceeded, better prepared candidates gained additional marks by also identifying that the collection period for trade receivables had increased so the delay in receiving payment was now even longer. **Part (c)** required candidates to consider the figures from a credit supplier's point of view. Most candidates gained some marks for noticing that the payment period had reduced but full marks were given to those candidates who were able to add that this would still be unsatisfactory as the period was still well over that allowed as the credit period. The importance of working capital was considered in **Part (d)**. Most candidates were able to achieve some marks on this question with the most popular answer being to be able to meet debts when they fall due. Other acceptable answers were to take advantage of cash discounts and to take advantage of business opportunities. Candidates were required to show the effect of different transactions on working capital for **part (e)**. This was not always answered well and it did appear as though candidates often simply guessed at the effect as the reasons given for their answers did not support the chosen effect. For **part (f)** candidates were asked to interpret the figures provided again to comment on how satisfactory the return on capital employed figure was. The majority of candidates correctly identified that the increase in figures was satisfactory and more able candidates gained the additional marks available by explaining that the increase was due to capital employed being used more efficiently. Candidates were required to show the effect of different transactions on capital employed for **part (g)**. This was similar to **part (e)** and also not always answered well as again it did appear as though candidates often simply guessed at the effect as the reasons given for their answers did not support the chosen effect. More able candidates were often able to determine that profit would not alter in either transaction and the best candidates also provided clear summaries of the reasons for increases/no change in working capital. The final question in **part (h)** produced partial answers from most candidates as nearly all were able to provide examples of important factors not included in financial statements such as the skill levels of workers. The very best answers were also able to refer to the money measurement concept and explain that items that could not be measured in monetary terms could not be included in the financial statements.

# ACCOUNTING

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Paper 0452/23

Paper 23

## Key Messages

Teachers and candidates will be aware that the examination papers use only “new” terminology. Candidates have not been penalised if they have used “old” terminology. It is important for teachers and candidates to be aware that candidates will be expected to use new terminology in future examinations.

**Question 1** required candidates to be able to prepare a petty cash book and to be able to answer associated theory questions. Some small theory questions on bank reconciliation were also included.

To earn full marks in **Question 2** candidates had to prepare an income statement of a manufacturing business, prepare journal entries for year-end transfers, and write up an expense account. Knowledge of accounting principles and correction of profit was also required.

**Question 3** required candidates to prepare a trial balance and state the entries necessary to correct some errors. Knowledge of accounting principles and the division of the ledger was also required.

To earn the available marks in **Question 4** candidates had to have a thorough understanding of limited company accounts. Having calculated the retained profit for the year, candidates had to prepare a statement of financial position. Related theory questions were also included. Candidates were also required to calculate and understand liquidity ratios.

**Question 5** required candidates to prepare a statement of corrected profit and then prepare the appropriation account of a partnership. Theory questions related to partnerships were also included. An understanding of the gross and net profit margins was also required.

## General Comments

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

A number of candidates lost marks because they provided an incorrect answer without supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should read through each question very carefully before attempting an answer. Marks will be lost if instructions are not followed. For example, marks were lost when candidates failed to follow an instruction to provide a calculation correct to two decimal places.

It is important to read through a question carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

Candidates are advised to think carefully about the answers they provide: this would often result in more marks being earned. Where a column is headed with a dollar sign candidates should realise that an amount of money is required rather than just a tick. It should be obvious that the gross profit would not be greater

than the sales. Similarly, candidates should appreciate that it is not possible to pay out more cash than is actually available.

The spaces provided on the question paper for candidates' answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate to examiners that this has been done. For example a note "please refer to page....." or "continued on page....." would ensure that this additional work is not overlooked when the paper is being marked.

Candidates are reminded that the use of inappropriate abbreviations may result in the loss of marks. Abbreviations such as "bbd" for "balance brought down", "P" for "Profit for the year" and "I" for "interest on capital" are not acceptable.

The following comments should be read in conjunction with the question paper and the published mark scheme.

### **Comments on Specific Questions**

#### **Question 1**

Candidates were required to prepare a petty cash book and answer related theory questions. An understanding of bank reconciliation was also required.

- (a) Two reasons for maintaining a petty cash book were required. Some candidates earned both the available marks: other candidates did not appear to appreciate the relationship between the cash book and the petty cash book.
- (b) One advantage of the imprest system of petty cash was required. Again, the more able candidates provided good answers. Other candidates described the imprest system instead of suggesting an advantage of this system.
- (c) Using information provided, candidates were required to write up a petty cash book. It was expected that this would be a question on which candidates could earn relatively high marks. There were some excellent answers with many candidates gaining good marks. Some candidate made basic errors resulting in the loss of marks. Common errors included:
- regarding the repayment of the loan as a payment rather than a receipt
  - using incorrect descriptions e.g. "restore" in lieu of "cash" or "bank"
  - not totalling the total columns and/or the analysis columns
  - not balancing the book at the month-end
  - showing a credit balance brought down at the start of the next month
  - not making an entry for the restoration of the imprest or recording an incorrect amount.
- (d) An explanation was required on how the double entry would be completed for the items shown in the postages column of the petty cash book. It was expected that candidates would explain that the total of the column is debited to the postages account at the end of the month. Many candidates gave partially correct answers, often omitting to emphasise that it was the total of the column which was transferred at the month-end.
- (e) Candidates were required to state two items which may appear in the cash book but not on the bank statement. Cheques not yet presented and cheques not yet credited were popular correct responses. A large number of candidates put "bank lodgements", which was not regarded as acceptable. There could be several amounts paid into the bank each month it is necessary to explain which of these would not appear on the bank statement.
- (f) Two items which may appear on the bank statement but not in the cash book were required. Most candidates provided acceptable answers and earned the two available marks. Popular correct answers were bank charges and dishonoured cheques. A few candidates suggested "loan interest". This was not regarded as adequate as this does not necessarily have any direct link to the bank.

## Question 2

Candidates were required to prepare an income statement for a manufacturing business and to answer a related theory question. Journal entries to record year-end transfers and an expense account were also required. Candidates also had to demonstrate an understanding of accounting principles and the effect an error would have on the profit for the year.

- (a) Many candidates used the data provided and prepared a wholly correct income statement. Other candidates did not appreciate that the inventories of raw materials and work in progress should not appear in an income statement. A few candidates omitted the cost of production, including only revenue, purchases and closing inventory, resulting in the gross profit being greater than the revenue.
- (b) Candidates were required to state two reasons why a manufacturer may purchase finished goods. The majority of candidates provided acceptable answers and earned the available marks.
- (c) Journal entries to show two year-end transfers were required. A significant number of candidates reversed the entries. Some candidates attempted to record the payment of money for carriage outwards rather than the year-end transfer to income statement. A number of candidates did not include narratives.
- (d) Using information provided, a motor insurance account had to be prepared. Candidates were informed that part of the insurance paid related to the owner's private motor. Many candidates did not appreciate that this should have been transferred from the expense account to the drawings account. Of the amount remaining in the expense account, \$270 (9 months) should have been transferred to the income statement and \$90 (3 months) which was prepaid should have been carried down as a debit balance to start the next financial year.
- (e) An explanation was required of how the accruals (matching) principle was applied in the preparation of the motor insurance account. Many candidates did correctly explain that the accruals (matching) principle requires that revenue for the period is matched against the costs of the same period. This should have been linked to the motor insurance account where only the expense for the year was transferred to the income statement.
- (f) Candidates were required to indicate by how much the profit for the year would be overstated or understated by the omission of the motor insurance from the income statement. This should have been linked to the answer in Part (d), but some candidates provided figures which could not be traced to the ledger account produced earlier. A significant number of candidates inserted a tick in one of the columns rather than an amount of money.
- (g) The majority of candidates gained a mark for identifying the business entity principle. Only a few candidates went on to explain that only business transactions are recorded in the books of the business.

## Question 3

Candidates were required to prepare a trial balance and to complete a table showing entries required to correct various errors. The question also included accounting principles and the division of the ledger.

- (a) A trial balance had to be completed from a given list of balances. This should have been a relatively straightforward question. It was expected that candidates would appreciate that only the opening inventory should be included in the trial balance: a large number of candidates included both inventories (either the total or the difference between them) or included only the closing inventory. Most candidates correctly identified that the difference on a trial balance is transferred to the suspense account. Some incorrectly described this difference as "balance", "difference", and "appropriation account".
- (b) A list of errors discovered after the preparation of the trial balance was provided. A table had to be completed to show the debit and credit entries to correct these errors. In (i) a significant number of candidates credited "capital expenditure" instead of a non-current asset account. A common error in (ii) was to debit petty cash. No debit entry was required to correct this error. A few candidates incorrectly credited the purchases returns journal rather than the purchases returns account in (iv). To correct the error in (v) the amount of \$25 should have been doubled.



- (c) Candidates were required to select one error and explain why it would not affect the balancing of the trial balance. The first error, which was an error of omission, did not affect the balancing of the trial balance. The second error, which was an error of principle, also did not affect the balancing of the trial balance. A popular incorrect response was the petty cash balance omitted from the trial balance (error (iii)).
- (d) The accounting principle applied in a given situation should have been identified as the money measurement principle. From the variety of answers, many candidates did not appear to recognise the principle being described.
- (e) A second accounting principle had to be identified from a given scenario. Many correctly identified this as the realisation principle. Once again, there was a variety of incorrect responses.
- (f) One advantage of dividing the ledger into three sections was required. Many candidates offered acceptable responses, the most common one being to divide the work.

One example of an account which may appear in each section of the ledger was required. Again, there were many correct responses. Some candidates incorrectly suggested that the sales account or sales returns account would appear in the sales ledger, and the purchases account or purchases returns account would appear in the purchases ledger. A few suggested "customer account" and "supplier account" without reference to "credit customer" or "credit supplier".

#### Question 4

The main topic of this question was limited companies. Candidates were required to calculate the retained profit for the year, prepare a statement of financial position and answer related theory questions. The question also included the calculation and interpretation of accounting ratios.

- (a) Candidates were required to calculate the retained profit for the year. The answer could be either in the form of an arithmetic calculation or an appropriation account. Some candidates did not deduct the debenture interest, despite the question stating that this had not been accounted for. Most candidates correctly deducted the transfer to reserve and an ordinary share dividend – though there were many incorrect calculations of the amount of dividend.
- (b) A statement of financial position for a limited company was required. There were some very good responses, but a number of candidates did not present the statement in an acceptable form. Common errors included:

not deducting the provision for doubtful debts from the trade receivables  
showing trade receivables as a liability and trade payables as an asset  
omitting accrued debenture interest or including it as a non-current liability  
including debentures within the capital and reserves section.

- (c) Using the statement prepared in (b), candidates were required to calculate the current ratio and the quick ratio. The majority of candidates used the current assets and the current liabilities from their statement and were able to earn all the available marks. A few did not show the answers correct to two decimal places.

Candidates were required to explain the importance of the quick ratio. Many answers were limited to a statement of how this ratio is calculated rather than explaining how it is a measure of liquidity, showing whether the company can pay its immediate liabilities from its liquid assets.

Two ways in which the quick ratio could be increased had to be suggested. Many suggested increasing current assets and reducing current liabilities. These were not acceptable responses. Some candidates failed to relate their answer to the limited company mentioned in the question and suggested that the owner should invest more capital from his/her private funds or should reduce his/her drawings.

- (d) Two features of ordinary shares were required. Most candidates earned the available marks. Answers such as "get their money last" could have been improved by being more precise.



- (e) Two features of debentures were required. Most candidates earned the available marks. Once again, some answers were rather imprecise.

### Question 5

This question was based on partnership accounts. Profit correction and the understanding of accounting ratios were also included.

- (a) Candidates were informed that errors were discovered after the calculation of the profit for the year. A statement of corrected profit was required. Most candidates showed their calculations and were able to earn some of the available marks. A number of candidates did not include the original profit so it was impossible to understand whether the adjustments resulted in an increase or a decrease.
- (b) Using the profit calculated in (a), candidates were required to prepare an appropriation account of a partnership. Most candidates understood the format of an appropriation account and earned some of the available marks. Common errors included:
- including extraneous items such as capital
  - incorrect calculation of Tom's interest on capital
  - incorrect calculation of Gill's salary
  - omission or incorrect labelling of Tom's additional profit share
- (c) Candidates were required to state one reason why partners receive interest on capital and are charged interest on drawings. Most candidates gained both the available marks.
- (d) Information was provided on the gross profit margin for two years. Candidates were required to suggest two reasons for the change in the gross profit margin. Many candidates correctly suggested an increase in the selling price or a decrease in the cost price. Some candidates incorrectly referred to quantities, suggesting an increase in the amount of sales or a decrease in the amount of purchases.
- (e) Using the information provided on the gross profit margin and the net profit margin for two years, candidates were required to state, giving a reason, the year in which the partners had better control of expenses. It was evident that a large number of candidates do not understand the relationship between the gross profit percentage and the net profit percentage.