

ACCOUNTING

Paper 0452/11

Paper 11

Key Messages

The paper was generally well attempted. There are certain areas where tutors and candidates could benefit with further work and revision for future examinations, notably:

- Sound knowledge of double entry bookkeeping, with specific reference on this paper to:
 - provision for doubtful debts account
 - trade payables and trade receivables accounts
 - suspense account.
- Knowledge of which items are included in the Statement of Financial Position and which are included in the Income Statement.
- Always attempt a multiple choice answer.
- Knowledge of how to complete journal entries to correct errors in the ledger.
- Knowing which errors will affect the trial balance, thus preventing it from balancing, and thereby requiring the use of a suspense account to correct them.
- Impact on the reported profit for the year of the correction of errors.
- The importance of using correct labels.

General Comments

Overall, the paper was well attempted by a number of the candidates. Indeed, there were some excellent scripts. The main causes for some candidates not performing at a higher level relate to the key messages identified above and will be commented on below.

Comments on Specific Questions

Question 1

As always, **question 1** on the paper comprised ten multiple choice questions. Generally these were quite well answered. However, four items merit more detailed comments.

- (b) The payment made for insurance during the year was \$2000. Of this amount, \$400 related to the next accounting period. This meant the charge for the current year was \$1600 and would have been credited in the account as the transfer to the income statement. The answer, therefore, was key **A**.
- (c) The question related to a dishonoured cheque. As it was from a customer then it will have been recorded in the sales ledger control account. The entry for the cheque would have been a credit in the bank and therefore a debit in the control account (key **D**).
- (e) For this question an account was shown. From the statements given Andrew hadn't earned \$2800 as advertising is an expense. Neither had he paid \$2800 as the bank figure was \$4000. This left B or C as the key. The answer was **B** as the balance brought down to the debit identifies a prepayment.

- (h) The key was **B**. The only reason any club would prepare a trading account is because it operates some sort of trading activity for the club. Thus the only answer could be that it operates a café.

In line with the comment in the key messages, some candidates left some answers blank.

Question 2

The performance for this question was mixed. Some parts were well done, whilst others, particularly the identification of the correct double entry in (e) caused difficulty.

- (a) The main issue here is that a book of prime entry, as the name suggests is the *first* place in which transactions are recorded. Very few candidates made this comment.
- (b) Most candidates correctly identified at least one book of prime entry. Many more candidates could have added 'journal' or 'day book'. A number of candidates also wrongly referred to the sales or purchase ledger as being day books.
- (c) This was generally quite well done with most earning a score of at least three out of the four available. The item where candidates struggled was the unpaid commission receivable. As this relates to unpaid income then for the business concerned this must be an asset, not an expense.
- (d) Most candidates were able to identify the correct financial statements.
- (e) This type of question is common for the paper. It is a test of the candidate's knowledge of double entry for a series of transactions. The answer should always be both the correct name of the account in which the entry is made and the amount. The major point is always the correct name of the account. The most common issues were to state inventory and imprest rather than purchases and petty cash for the debit of items four and six. For the credit entries, bank rather than loan, or even bank loan for item one and cash rather than bank for item six were the most common issues. Entries were also reversed in a number of cases.
- (f) Most candidates made a good attempt at calculating the correct bank balance.

Question 3

- (a) Most candidates were able to identify at least two different types of inventory a manufacturing business will hold. Some candidates incorrectly stated that the opening inventory and the closing inventory were of the same class, say raw materials.
- (b) The answers here were mixed. It should have been a statement about the lower of cost and net realisable value. However, some candidates only made half the statement, saying either cost or net realisable value but not both.
- (c) This question was a test of double entry knowledge and, again candidates were unsure. Most candidates correctly stated the debit to drawings. However, a significant number stated 'inventory' rather than purchases, or the name of the business owner for the credit entry.
- (d) Very few candidates stated the correct principle of business entity. The most common incorrect answer was duality.
- (e) Statements offered by candidates were too vague about the reason for preparing a bank reconciliation statement. 'To check for errors' was quite a common answer, but not identifying what was checked (cash book with bank statement), or what errors were identified.
- (f) A number of candidates stated it was the transactions at the bank, but they needed to tie this back to the business or business owner.
- (g) Most candidates correctly identified an item in the cash book and not on the bank statement being an unpresented cheque. Less well done was an item on the bank statement not in the cash book. Often candidates reversed the items in each.

Question 4

This question focused on the provision for doubtful debts. It is an area which can cause issues and, unfortunately, the answers reflected this. Overall, the responses could have been improved upon.

- (a) A significant number of candidates incorrectly stated that the provision is an amount of money set aside. Other common incorrect answers were statements such as 'customers who will not pay', or 'debts which are bad'.
- (b) This question required the preparation of a provision for bad debts account. Items were often reversed and the bad debt to be written off was included as were the total trade receivables. The provision was calculated on the full amount of trade receivables without deducting the bad debt. It is felt that more work on this topic will yield benefits for candidates.
- (c) Most answers were generic statements, with candidates stating 'an expense' which was not in relation to the account they had prepared. The answer should have linked back to the attempt made by the candidate in (b). There was also a need for the candidate to state that it is shown after the gross profit.
- (d) Most candidates could name the two accounting principles applied in respect of maintaining a provision for doubtful debts.
- (e) The answer was looking for specific items in the statement of financial position, such as profit or trade receivables. Common incorrect answers were working capital and net assets.

Question 5

This question concerned the preparation of control accounts for trade receivables and payables and the completion of an income statement from the data. The key messages section at the start of this report highlights the need for a thorough knowledge of double entry.

- (a) Candidates had to calculate the opening capital from the balances provided. This was well attempted and most offered the correct answer. The main hurdle faced by candidates was including the bank balance as a liability rather than an asset.
- (b) Candidates had to prepare the trade receivables and payables accounts from the data. Candidates needed to bring in the opening balances on the account from the data in part (a). Receipts from customers and payments to suppliers were often on the wrong side of the appropriate account and mislabelled. As regards the latter point bank or cash was required, not amounts received from customers or paid to suppliers. Indeed, the amounts received and paid were carried down as the closing balance. Often the sales and purchases figures were not included or inserted on the wrong side of the account. With the trade payables account in particular there was a number of alien items included such as the rent payment and purchase of new equipment. The closing balance too was often not entered.
- (c) Candidates had to prepare the income statement from their answer to part (b) and other data. There were some very good attempts. With this type of question candidates need to be aware that the later section of questions often relies on data calculated in an earlier part. The common issues with this question included, in the trading section the amounts received from customers and paid to suppliers were treated as the sales and purchases figure. The purchase of the new equipment was often incorrectly included.

Candidates also needed to pay careful attention to the expenses section with regard to the adjustments in respect of rent and, in particular, the addition of the rent prepaid in part (a). Depreciation was often omitted or calculated incorrectly and drawings included as an expense.

- (d) The capital section of the statement of financial position was required. There were some good attempts with most remembering to bring in the capital calculated in part (a). Candidates need to ensure that they label the relevant item.

- (e) Most candidates correctly took their gross profit and revenue figures from part (c) and calculated a gross margin. Candidates need to remember to include percentage signs in their answers.
- (f) Candidates had to identify the possible causes for a lower gross margin for the business this year compared to last year. It is because either the selling price has decreased or the purchase cost of goods sold has increased. It is the *unit* selling and purchase prices which are the important factors.

Question 6

This question was mainly concerned with journal entries to correct errors, preparation of a suspense account and the effect on draft profit for the year of correcting errors. This type of question requires a thorough knowledge of double entry. The main issue was candidates incorrectly identifying which errors require an adjustment through a suspense account.

- (a) Candidates had to complete several sentences by the inclusion of the correct word from a given list. Generally this was well done with many earning full marks. The most common mistake was with the final two sentences which were often identified the wrong way round.
- (b) From a given list candidates had to identify which errors did not affect the trial balance and name the type of error. The results were mixed. Some achieved full marks. The most common mistake was to identify the wrong error or wrongly name the correct one. This is one question where candidates need to take as much time as possible reading each statement and identifying what exactly has happened. Where a debit and credit of equal amount has been posted, even to the wrong account(s), then the trial balance is not affected.
- (c) Candidates had to complete a series of journal entries to correct the errors made, and narratives were also required.

For the first entry, most candidates did not recognise that the error had been to post two credits and no debit. Thus an adjustment through a suspense account was required, which only a few candidates identified.

Almost all made the correct entry for the second error.

A high number of candidates correctly adjusted for the third error. The main incorrect answer was to label the debit entry as sales returns journal. It is the account which is adjusted not the book of prime entry.

The fourth entry could have been improved upon. Virtually all candidates included either the full amount of the invoice or added or deducted the stationery figure to it. The only amount which needed to be adjusted was the \$150 and then not through a suspense account.

In terms of narratives the answers varied from fully correct to being very limited. Many candidates stated what had been done rather than what was being corrected.

- (d) The preparation of the suspense account was marked on the basis of what the candidate had identified in part (c). The most common error was to include the item on the wrong side of the account to that identified in the journal entry. A number of candidates also balanced the account and brought down the closing balance. With a suspense account the journal entries usually close the account, other than in this case where identification of the opening amount was asked for.
- (e) This question required candidates to identify the impact on the draft profit of correcting the error by completing a table. There were some good attempts. A number of candidates simply ticked a box rather than including an amount. The dollar sign below 'increase' and 'decrease' indicated that an amount was required. However, the most common omission was candidates not calculating the total correctly at the bottom of the table. Often the total of the increase and decrease were added together rather than netted off. When the result was a net decrease this was often added to the draft profit and vice versa.

ACCOUNTING

Paper 0452/12

Paper 12

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ACCOUNTING

Paper 0452/13

Paper 13

Key Messages

In general candidates presented well laid out, legible answers. Candidates should note that where a question asks for an account to be provided, they should show debit and credit sides of the account along with dates, details and amounts, plus carry down the balance.

Candidates should pay particular attention to details and instructions given in the question.

Comments on Specific Questions

Question 1

Generally **a, b, d, g, h** and **j** were answered well. Parts **c** and **f** warrant more detailed comments.

- (c) This question dealt with a correction of an error. The most common mistake was to choose the option which was the reversal of the correct answer. In other words, candidates chose A rather than D.
- (f) In answering this, a popular choice was to opt for the original cost of \$18. Thus, some candidates did not realise that the correct answer was the net realisable value.

A number of candidates offered no answer to several of the questions.

Question 2

- (a) A number of candidates offered good answers here. Some candidates, however, appeared to see the word statement and offered an answer related to a bank statement rather than a statement of account. Candidates should be reminded to read the question carefully.
- (b) The most common correct responses were division of work and keeping similar accounts together.
- (c) This was well answered with many candidates earning full marks. The most common incorrect answer was that a sales account was in the sales ledger rather than in the nominal / general ledger.
- (d) There were many correct answers to this part of the question although a few candidates chose a section from a section of the income statement.
- (e) Although there were a few reversed entries many provided correct answers.
- (f) Many provided correct answers with just a few candidates who offered reversed entries.
- (g) Candidates need to be made aware that the correct answer here was statement of account. Very few candidates provided the correct answer. A variety of incorrect answers were provided, the most common being invoice and credit note.

Question 3

- (a) Whilst the majority of candidates successfully identified two non-current assets a small number provided answers relating to current assets.

- (b) In answering this question, the most successful candidates focussed on the time element rather than any other comparison.
- (c) Whilst there were many correct answers a number of candidates either offered no answer or wrote about the purchase of a non-current asset.
- (d) A great many candidates earned full marks here although a number of candidates thought that stationery was capital expenditure.
- (e) A majority of candidates answered this correctly, although a number thought one opened a sales account for the sale of a non-current asset.
- (f) In general those who successfully answered (e) offered the correct answer of consistency.
- (g) This was not as well answered as (f) although stronger candidates focused their answers on non-financial aspects and only dealing with the past.

Question 4

- (a) This question required candidates to prepare a sales ledger and a purchase ledger control account. Candidates could have performed to a higher level here by:
 - Using the correct labels (candidates should note that the correct label for the trade payables and trade receivables was balance b/d and receipts from credit customers was bank)
 - Placing items in the correct ledger (for example, it is not correct to have the discount received in the sales ledger control account)
 - Non-reversal of entries
 - Bringing balances down.

In addition, candidates had issues with the setoff in the sales ledger. A number offered \$80 or \$180 rather than the correct figure of \$100.

- (b) Many candidates earned a mark here.
- (c) Many candidates correctly identified why a discount allowed was given although a number offered "to encourage bulk buying".

Question 5

In answering this question candidates needed to pay particular attention to the opening statements that Owen started a business selling machinery on the 1st May 2015 and opened a business bank account with \$12 000 of his own money.

- (a) It was very important to read the question carefully and those that did recognised that:
 - The opening debit entry was capital \$12 000 in the bank column
 - The machinery purchased and sold were part of the business trading activities and thus the correct entries were purchases and sales
 - The accrual item was a non-cash item
 - The whole of the 3 months' rent were to be shown in the cash book.Weaker candidates did not recognise some or all of the above and, in addition, some reversed the cash and bank entries or did not bring down their balances.
- (b) Most candidates answered this question reasonably well. To perform to a higher level, candidates needed to:
 - Adjust the purchases figure by a correct closing inventory to arrive at the cost of sales
 - Adjust the rent to reflect one month in calculating the expenses
 - Recognise that the answer was sales from cash book – their answer for expense (from above) to arrive at the profit for the month.

- (c) Whilst there were many excellent answers a number of candidates either left this question blank or incorrectly provided an income statement rather than a statement of financial position. To perform to a higher level, candidates needed to recognise the following:
- That the machines were part of the trading activities and thus were not non-current assets
 - That the cash and bank entries were to be found in the cash book and not to use the \$2000 paid into the bank
 - That balance of the rent was to be shown as other receivable in the current assets
 - That the capital figure was \$13 800
- (d) Most candidates either left this blank or provided an incorrect answer.

Question 6

- (a) A number of candidates earned full marks here. There were common issues for some candidates, which included using the narrative fixtures and fittings for balance or bank entries, including incorrect items, reversing entries and not bringing a balance down.
- (b) Many candidates earned full marks here.
- (c) Generally well answered, although a number of candidates could have improved upon their response by using correct labels, including their depreciation calculated in (b), and including dividends.
- (d) Although this topic has occurred before a number of candidates seemed unprepared for it and left the table blank. Others tried to fill every space on the table. Candidates who were clearly familiar with this topic scored high marks here.
- (e) A number of candidates left this question blank. To earn the marks here candidates needed to refer to (c) and divide their profit by the sales figure of \$227 000 and show an answer to two decimal places, which many did.
- (f) A number of candidates misunderstood this question and provided a comparison based on liquidity rather than the net profit margin. Most candidates who answered this question earned three or more marks. Candidates needed to identify more points and then go on to further develop the points they gave.
- (g) Most candidates earned two or three marks here.

ACCOUNTING

Paper 0452/21

Paper 21

Key Messages

All the questions on this structured examination paper were compulsory. The paper covered a wide range of syllabus topics.

Where appropriate, candidates are advised to provide supporting calculations. This ensures that at least some of the available marks may be earned even though the final answer may be incorrect.

It is important to read through each question carefully before attempting an answer. This will ensure that an important piece of information is not overlooked and that instructions are followed precisely.

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 that this has been done. A note "Please refer to Page .." or "Continued on Page .." would ensure that this additional work is not overlooked when the script is being marked.

Candidates are reminded that inappropriate abbreviations should not be used. Abbreviations such as "bbd" or "b/d" for "balance brought down" in ledger accounts are not acceptable. In financial statements abbreviations such as "TR" for "trade receivables" and "PDD" for "provision for doubtful debts" are not acceptable.

It is expected that candidates will be familiar with International Accounting Terminology and not use "old" terminology such as "stock", "creditors", "net profit" etc.

General Comments

It is important that candidates have a thorough knowledge of all the topics on the syllabus.

Comments on Specific Questions

Question 1

- (a) Candidates were required to prepare a three column cash book. Many candidates performed well on this question. The first two transactions caused a few challenges. The wording in the details column should indicate the name of the account where the double entry would be made. It is not enough to write "dishonoured cheque" or "fuel". All the transactions should have been correctly dated.
- (b) A partly completed statement of account was provided and candidates were asked to calculate the balance due at the end of the month and to name the trader who owed that balance. This was generally well done.
- (c) A table had to be completed to name the document and the book of prime (original) entry which the seller would use for three given transactions. Some candidates listed ledger accounts rather than books of prime (original) entry and a few referred to purchases and purchases returns rather than sales and sales returns.

- (d) Using the information in the question, candidates were required to prepare the account of a credit customer. Some candidates reversed the account. Once again, the name of the account where the double entry would be made should have been shown in the details columns, so words like “goods” and “payment” were not acceptable.

Question 2

- (a) An income statement of a service business had to be prepared. There were some very good answers. Some candidates did not seem to be familiar with this type of business and tried to include figures for sales, cost of sales and gross profit. The introduction of these extraneous items also resulted in an incorrect profit for the year.

The calculation of the rates and insurance for the year caused a few problems. An amount of \$3900 had been paid of which \$300 was for the following financial year. After that adjustment, one quarter of the amount had to be deducted as this related to the owner’s living accommodation. The expense for the year for the business was \$2700.

The depreciation of the motor vehicles was \$1600. This represented 20% of the opening book value of the motor vehicles. The office equipment was to be depreciated using the revaluation method. This was \$3800 which represented the difference between the closing value of the equipment and the total of the opening valuation plus the additional equipment purchased.

A few candidates calculated the provision for doubtful debts at 1% of the total fees received instead of 1% of the amount owing from clients.

- (b) Candidates had to prepare a capital account. A significant number of candidates reversed the account. Most correctly inserted the opening balance, the profit from the income statement prepared in Part (a) and the cash drawings. Many overlooked the rates and insurance which related to living accommodation.
- (c) An explanation of the accruals (matching) principle was required. A number of candidates incorrectly discussed matching the profit against the expenses rather than matching the revenue against the expenses of the same financial period. One example of how this was applied in the income statement was required. It was not regarded as adequate to simply state “prepaid insurance”, “commission outstanding” or “fees outstanding”: it was necessary to state how the item was treated in the income statement in order to apply the accruals (matching) principle.
- (d) An explanation of the business entity principle was required. Most candidates correctly explained how the business is treated as being separate from the owner.

Question 3

- (a) Most candidates correctly suggested two causes of depreciation.
- (b) An explanation of the straight line method of depreciation was required. Using this method the depreciation is calculated on the cost price (less scrap value where applicable) and the same amount is written off each year.
- (c) An explanation of the reducing (diminishing) balance method of depreciation was required. Using this method the same percentage is written off each year, but it is calculated on the net book value of the non-current asset.
- (d) The principle of accruals (matching) was usually correctly identified.
- (e) Using information provided, candidates were required to prepare a machinery account and a provision for depreciation of machinery account. Well-prepared candidates were able to answer well. It is important to remember that only the cost of assets purchased, or disposed of, are recorded in the asset account. Depreciation and proceeds of sale are not entered in the asset account. The provision for depreciation account should show the annual transfer to the income statement and the transfer to the disposal account of the total depreciation on the asset sold. The cost of the assets purchased and the proceeds of sale are not entered in the provision for depreciation account. Both accounts should have been balanced at the end of each financial year.

- (f) Candidates were required to calculate the profit or loss on disposal of a machine. As only a calculation was required, candidates were free to use any format. They should have shown the proceeds of sale and the depreciation on that asset being deducted from the cost price to give a loss of \$1100. Frequently extraneous items were included such as an additional year's depreciation on the asset sold or the balance carried down on the provision account.

Question 4

- (a) Candidates were provided with an incorrect statement of financial position of a partnership together with additional notes. A corrected statement had to be prepared. A good knowledge of the financial statements of partnership businesses was required to answer this question well.

It is important to display the assets and liabilities in the correct sections and to sub-total those sections. A number of candidates included the provision for doubtful debts as a current liability instead of deducting it from the trade receivables. The bank charges should have been deducted from the bank balance.

In a statement of financial position of a partnership it is necessary to show each partner's capital account and each partner's current account separately. It is incorrect to simply show total capital, total profit, total drawings. Candidates were given the choice of either showing the details of the current accounts within the statements or as separate calculations in the space provided. The balance of each partner's capital account should have been shown in a column headed with their name and then the total capital shown in the third column. Displaying the current accounts within the statement requires a column for each partner showing the opening balance, adding the profit share and deducting the drawings and then showing the closing balance. The total balance on the current accounts should then appear in the third column to add to the total capital to show the total funds provided by partners.

- (b) Candidates were required to state two items (in addition to profit-sharing ratio) which may appear in a partnership agreement. Many correctly suggested interest on capital, interest on drawings, partners' salaries etc.
- (c) Two ways in which a partnership could obtain long term funds had to be stated. Common correct answers included obtaining loans and investing additional capital. A significant number incorrectly suggested issuing shares and debentures. These are applicable to limited companies but not to partnership businesses.
- (d) A table had to be completed to indicate the effect of four transactions on the working capital of a business. Delaying paying credit suppliers and paying cash into bank will not affect the working capital. Selling surplus equipment increases the current assets and so increases working capital. Writing off a bad debt reduces current assets and so reduces the working capital.

Question 5

- (a) Using information provided, candidates were required to prepare an extract from a statement of financial position showing the equity and reserves. Reading the question carefully should have shown that this was a straightforward question as there were only three items to list – share capital, general reserve and retained earnings. Many candidates incorrectly attempted to prepare either an appropriation account or a statement of changes in equity.
- (b) Candidates were required to calculate the current ratio, quick ratio and the return on capital employed (ROCE). Many candidates calculated the first two ratios correctly and gave answers to two decimal places. The third ratio proved to be a little more challenging.
- (c) A comment on the change in the current ratio was required. Most comments were limited to a basic statement that the ratio had decreased. Candidates could also have explained that in 2015 the current assets only just covered the current liabilities and that the ratio had fallen to below the generally-accepted “benchmark”.
- (d) One reason for the change in the quick ratio was required. The most common correct response was that the inventory had increased.
- (e) Two ways to improve the return on capital employed (ROCE) were required. The return will improve if the profit increases. Many candidates discussed increasing sales, giving discounts and so on. These will not necessarily result in an increase in the profit. The other way to increase the return is to reduce the capital employed, for example repaying long term loans. A number of candidates incorrectly related the question to a sole trader and discussed increasing drawings.
- (f) Using information provided, candidates were required to calculate the collection period for trade receivables. A significant number of candidates incorrectly rounded the answer of 68.9 days to 70 days instead of 69 days.

Most candidates correctly explained that the trade receivables were taking longer than the period of credit allowed and went on to explain the possible effect of this on the liquidity of the company.

- (g) Using the information provided, candidates were required to comment on the payment period for trade payables. Most candidates explained that the company was paying the credit suppliers after the period of credit allowed. Many went on to explain the consequences of this.

ACCOUNTING

Paper 0452/22

Paper 22

Key Messages

All the questions on this structured examination paper were compulsory. The paper covered a wide range of syllabus topics.

Where appropriate, candidates are advised to provide supporting calculations. This ensures that at least some of the available marks may be earned even though the final answer may be incorrect.

It is important to read through each question carefully before attempting an answer. This will ensure that an important piece of information is not overlooked and that instructions are followed precisely.

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 that this has been done. A note "Please refer to Page .." or "Continued on Page .." would ensure that this additional work is not overlooked when the script is being marked.

Candidates are reminded that inappropriate abbreviations should not be used. Abbreviations such as "bbd" or "b/d" for "balance brought down" in ledger accounts are not acceptable. In financial statements abbreviations such as "TR" for "trade receivables" and "PDD" for "provision for doubtful debts" are not acceptable.

It is expected that candidates will be familiar with International Accounting Terminology and not use "old" terminology such as "stock", "creditors", "net profit" etc.

General Comments

It is important that candidates have a thorough knowledge of all the topics on the syllabus.

Comments on Specific Questions

Question 1

- (a) Candidates were required to prepare a three column cash book. Many candidates performed well on this question. The first two transactions caused a few challenges. The wording in the details column should indicate the name of the account where the double entry would be made. It is not enough to write "dishonoured cheque" or "fuel". All the transactions should have been correctly dated.
- (b) A partly completed statement of account was provided and candidates were asked to calculate the balance due at the end of the month and to name the trader who owed that balance. This was generally well done.
- (c) A table had to be completed to name the document and the book of prime (original) entry which the seller would use for three given transactions. Some candidates listed ledger accounts rather than books of prime (original) entry and a few referred to purchases and purchases returns rather than sales and sales returns.

- (d) Using the information in the question, candidates were required to prepare the account of a credit customer. Some candidates reversed the account. Once again, the name of the account where the double entry would be made should have been shown in the details columns, so words like “goods” and “payment” were not acceptable.

Question 2

- (a) An income statement of a service business had to be prepared. There were some very good answers. Some candidates did not seem to be familiar with this type of business and tried to include figures for sales, cost of sales and gross profit. The introduction of these extraneous items also resulted in an incorrect profit for the year.

The calculation of the rates and insurance for the year caused a few problems. An amount of \$3900 had been paid of which \$300 was for the following financial year. After that adjustment, one quarter of the amount had to be deducted as this related to the owner’s living accommodation. The expense for the year for the business was \$2700.

The depreciation of the motor vehicles was \$1600. This represented 20% of the opening book value of the motor vehicles. The office equipment was to be depreciated using the revaluation method. This was \$3800 which represented the difference between the closing value of the equipment and the total of the opening valuation plus the additional equipment purchased.

A few candidates calculated the provision for doubtful debts at 1% of the total fees received instead of 1% of the amount owing from clients.

- (b) Candidates had to prepare a capital account. A significant number of candidates reversed the account. Most correctly inserted the opening balance, the profit from the income statement prepared in Part (a) and the cash drawings. Many overlooked the rates and insurance which related to living accommodation.
- (c) An explanation of the accruals (matching) principle was required. A number of candidates incorrectly discussed matching the profit against the expenses rather than matching the revenue against the expenses of the same financial period. One example of how this was applied in the income statement was required. It was not regarded as adequate to simply state “prepaid insurance”, “commission outstanding” or “fees outstanding”: it was necessary to state how the item was treated in the income statement in order to apply the accruals (matching) principle.
- (d) An explanation of the business entity principle was required. Most candidates correctly explained how the business is treated as being separate from the owner.

Question 3

- (a) Most candidates correctly suggested two causes of depreciation.
- (b) An explanation of the straight line method of depreciation was required. Using this method the depreciation is calculated on the cost price (less scrap value where applicable) and the same amount is written off each year.
- (c) An explanation of the reducing (diminishing) balance method of depreciation was required. Using this method the same percentage is written off each year, but it is calculated on the net book value of the non-current asset.
- (d) The principle of accruals (matching) was usually correctly identified.
- (e) Using information provided, candidates were required to prepare a machinery account and a provision for depreciation of machinery account. Well-prepared candidates were able to answer well. It is important to remember that only the cost of assets purchased, or disposed of, are recorded in the asset account. Depreciation and proceeds of sale are not entered in the asset account. The provision for depreciation account should show the annual transfer to the income statement and the transfer to the disposal account of the total depreciation on the asset sold. The cost of the assets purchased and the proceeds of sale are not entered in the provision for depreciation account. Both accounts should have been balanced at the end of each financial year.

- (f) Candidates were required to calculate the profit or loss on disposal of a machine. As only a calculation was required, candidates were free to use any format. They should have shown the proceeds of sale and the depreciation on that asset being deducted from the cost price to give a loss of \$1100. Frequently extraneous items were included such as an additional year's depreciation on the asset sold or the balance carried down on the provision account.

Question 4

- (a) Candidates were provided with an incorrect statement of financial position of a partnership together with additional notes. A corrected statement had to be prepared. A good knowledge of the financial statements of partnership businesses was required to answer this question well.

It is important to display the assets and liabilities in the correct sections and to sub-total those sections. A number of candidates included the provision for doubtful debts as a current liability instead of deducting it from the trade receivables. The bank charges should have been deducted from the bank balance.

In a statement of financial position of a partnership it is necessary to show each partner's capital account and each partner's current account separately. It is incorrect to simply show total capital, total profit, total drawings. Candidates were given the choice of either showing the details of the current accounts within the statements or as separate calculations in the space provided. The balance of each partner's capital account should have been shown in a column headed with their name and then the total capital shown in the third column. Displaying the current accounts within the statement requires a column for each partner showing the opening balance, adding the profit share and deducting the drawings and then showing the closing balance. The total balance on the current accounts should then appear in the third column to add to the total capital to show the total funds provided by partners.

- (b) Candidates were required to state two items (in addition to profit-sharing ratio) which may appear in a partnership agreement. Many correctly suggested interest on capital, interest on drawings, partners' salaries etc.
- (c) Two ways in which a partnership could obtain long term funds had to be stated. Common correct answers included obtaining loans and investing additional capital. A significant number incorrectly suggested issuing shares and debentures. These are applicable to limited companies but not to partnership businesses.
- (d) A table had to be completed to indicate the effect of four transactions on the working capital of a business. Delaying paying credit suppliers and paying cash into bank will not affect the working capital. Selling surplus equipment increases the current assets and so increases working capital. Writing off a bad debt reduces current assets and so reduces the working capital.

Question 5

- (a) Using information provided, candidates were required to prepare an extract from a statement of financial position showing the equity and reserves. Reading the question carefully should have shown that this was a straightforward question as there were only three items to list – share capital, general reserve and retained earnings. Many candidates incorrectly attempted to prepare either an appropriation account or a statement of changes in equity.
- (b) Candidates were required to calculate the current ratio, quick ratio and the return on capital employed (ROCE). Many candidates calculated the first two ratios correctly and gave answers to two decimal places. The third ratio proved to be a little more challenging.
- (c) A comment on the change in the current ratio was required. Most comments were limited to a basic statement that the ratio had decreased. Candidates could also have explained that in 2015 the current assets only just covered the current liabilities and that the ratio had fallen to below the generally-accepted “benchmark”.
- (d) One reason for the change in the quick ratio was required. The most common correct response was that the inventory had increased.
- (e) Two ways to improve the return on capital employed (ROCE) were required. The return will improve if the profit increases. Many candidates discussed increasing sales, giving discounts and so on. These will not necessarily result in an increase in the profit. The other way to increase the return is to reduce the capital employed, for example repaying long term loans. A number of candidates incorrectly related the question to a sole trader and discussed increasing drawings.
- (f) Using information provided, candidates were required to calculate the collection period for trade receivables. A significant number of candidates incorrectly rounded the answer of 68.9 days to 70 days instead of 69 days.

Most candidates correctly explained that the trade receivables were taking longer than the period of credit allowed and went on to explain the possible effect of this on the liquidity of the company.

- (g) Using the information provided, candidates were required to comment on the payment period for trade payables. Most candidates explained that the company was paying the credit suppliers after the period of credit allowed. Many went on to explain the consequences of this.

ACCOUNTING

Paper 0452/23

Paper 23

Key Messages

Candidates should read through each question very carefully before attempting an answer. Answers should follow the specific requirements of the question.

Many candidates provided supporting calculations where appropriate. This ensured that they were able to earn at least some of the available marks, even though the final answer was incorrect.

Candidates are reminded that inappropriate abbreviations should not be used. Abbreviations such as 'bbd' for 'balance brought down' and 'Inv' for 'Inventory', are not acceptable. Where a question asks for a formula to be stated, the formula should be stated in full and abbreviations should not be used. Similarly, the names of business documents, e.g. statement of account, and the names of accounting principles, e.g. business entity, should be stated in full.

It is expected that candidates will be familiar with International Accounting Terminology and not use 'old' terminology such as 'stock', 'creditors', etc.

General Comments

The five questions on this paper were compulsory and covered a variety of topics on the syllabus.

Comments on Specific Questions

Question 1

- (a) (i) One reason why a cheque had been dishonoured was required. Most candidates were able to state one acceptable reason.
- (ii) Candidates were required to explain an entry in the cash book of a trader. Many correctly stated that this represented cash withdrawn from the bank for business use. Better candidates also stated that the entry was a contra entry. A significant number of candidates incorrectly stated that cash had been paid into the bank account.
- (iii) Candidates were required to explain an entry in a cash book, for money received from sales. There were many correct answers. However, some candidates stated incorrectly that money had been received from credit customers.
- (iv) Using the amount received and the cash discount allowed, candidates were required to calculate the percentage of discount. Some candidates obtained an incorrect answer by basing the calculation on the amount actually received rather than the total amount.
- (v) It was expected that candidates would appreciate that the total of the discount column on the debit side of the cash book would be debited to the discount allowed account in the ledger.
- (vi) Candidates were required to calculate the balance on the cash book. Generally this question was well-attempted. However, a number of candidates presented a correct working but stated the final answer incorrectly.

- (b) A bank reconciliation statement was required. There were some excellent responses. However, the question proved challenging for some candidates. It is important that candidates have a thorough knowledge of how to reconcile the bank statement balance with that shown in the cash book and use correct descriptions for the items within the reconciliation statement.
- (c) Four transactions were described. Candidates were required to name the business documents and to name the book of prime (original) entry in which the buyer and the seller would record each transaction. The standard of answer varied widely. Some candidates did not appreciate that both the buyer and the seller would record the credit note but that neither party would record the debit note. It is important that correct titles are used to describe documents and books of prime (original) entry. For example it is not acceptable to describe the 'statement of account' as 'statement' or to describe the 'sales returns journal' as 'returns journal'.

Question 2

- (a) A rent receivable account had to be prepared. Only candidates with a thorough knowledge of double entry were able to answer correctly. The wording in the details column should be the name of the account in which the double entry will appear. A significant number of candidates reversed the rent receivable account.
- (b) Candidates were asked to name, giving a reason, the section of the statement of financial position in which the balance of the rent receivable account would appear. This question was generally well attempted.
- (c) A motor expenses account had to be prepared. Once again, candidates with a thorough knowledge of double entry answered this question well. Candidates should understand how to account for an accrued expense and that the transfer to the income statement should represent the expense for the year. As in Part (a), details and dates were important.
- (d) A number of candidates incorrectly recorded goods taken for own use in the inventory account rather than the purchases account. Some candidates used an incorrect figure amount for the personal telephone expenses. A narrative should briefly describe the transaction being recorded not simply name the account debited and the account credited.

Question 3

- (a) Candidates were asked to classify three errors. Many candidates correctly identified the first error as an error of omission but some candidates did not identify the other two errors.
- (b) Candidates were to prepare the corrected trial balance. Those candidates with a good understanding of ledger accounts and double entry did well. A common error was to include the original capital account balance and then to insert a suspense account in order to balance the trial balance. Candidates should have appreciated that the opening inventory rather than the closing inventory should have been included in the trial balance.
- (c) Four errors were listed and candidates were required to state the effect on profit of correcting these errors and to state the accounting principle being applied. There were some excellent answers. Some candidates incorrectly based their answer on the effect of the actual errors rather than the effect of correcting the errors.

Question 4

- (a) Candidates were required to state the formula and to calculate the rate of inventory turnover. There were many wholly correct responses.

Two reasons for the decrease in the rate of turnover were required. The ratio measures the rate at which inventory is sold and replaced, so comments related to the cost price and the selling price were not acceptable.

- (b) Most candidates were able to identify the basis on which inventory should be valued and to name the accounting principle being applied.

- (c) The capital accounts and current accounts for two partners were provided and candidates were required to ascertain the balances and to insert these into an extract of the statement of financial position. The statement financial position prepared at the end of the financial year should include the closing balances on the ledger accounts rather than the opening balances. Within a statement of financial position, the debit balance on a partner's current account is indicated by the use of brackets.

- (d) Candidates were required to state the formula and to calculate the return on capital employed (ROCE). There were many wholly correct responses. A few candidates provided an incomplete formula by omitting '×100'. The total capital employed was the total of the partners' funds (the total of the balances of the capital and current accounts from **part (c)**). A common error was to use only the total of the capital accounts balances.

One reason for the decrease in the return on capital employed was required. The return decreased because of either a lower profit for the year or a higher capital employed.

- (e) This section concentrated on the terms of a partnership agreement between named partners and why they may wish to include certain items. A common error was to discuss partnership agreements in general rather than to relate the answer to the particular partnership on which the question was based.

Syed, the partner who had invested the highest amount of capital, would wish to see interest on capital included in the agreement to compensate him for this and also to encourage his partner, Sanchi, to invest further capital. Syed's drawings were lower than those Sanchi, so Syed would wish to include interest on drawings to discourage Sanchi from making excessive drawings.

Sanchi would wish to have partner's salary included in the partnership agreement to compensate for a greater share of the workload or responsibility.

- (f) Candidates were required to state the formula and to calculate the payment period for trade payables. There were many wholly correct responses. When stating the formula some candidates did not specify that the denominator was *credit* purchases and some candidates provided an incomplete formula by omitting '×365'. When calculating the payment period a few candidates not follow the instruction to round the answer up to the next whole day.

Comments were required on the payment period calculated. It was necessary to relate the payment period to the period of credit allowed and to discuss the consequences of this difference. It was not regarded as adequate to simply state that the payment period was too long.

- (g) Details of the trade receivables collection period and the period of credit allowed to trade receivables were provided and candidates were asked to comment on the effect on liquidity. Some answers were too general and some discussed working capital rather than liquidity. Better answers discussed the consequences of the collection period being longer than allowed.

Question 5

- (a) Candidates were required to calculate a club's subscriptions for the year. Only a calculation was required so candidates were able to present their answer in any format. While there were some wholly correct answers other candidates did not appreciate how prepaid and accrued subscriptions should be treated.
- (b) The refreshment income statement of a club had to be prepared. There were many wholly correct answers. Some candidates included extraneous items such as subscriptions. A few candidates did not present their answer in income statement format. The profit on refreshments was occasionally incorrectly described as 'surplus'.
- (c) The income and expenditure account of a club had to be prepared. This question was generally well-attempted. Some candidates included extraneous items such as purchase of equipment and purchase of refreshments.
- (d) Two reasons why the surplus or deficit on the income and expenditure account is not equal to the bank balance were required. Some comments were duplicated while others were vague and it was unclear whether they referred to an income and expenditure account or a bank account. A number of candidates misinterpreted the question and discussed bank reconciliation.
- (e) Candidates were required to explain why a club does not distribute a surplus to its members. Many candidates stated correctly that the members of clubs do not invest capital but did not develop their answer to explain that because members do not provide capital there can be no dividend/profit share.
- (f) Candidates were required to state how the accumulated fund of a club arises. It was expected that candidates would be able to explain that the accumulated fund is created from the annual surpluses (less any deficits) earned by a club.