

ACCOUNTING

Paper 0452/11
Paper 11 Multiple Choice

There were too few candidates for a meaningful report to be produced.

ACCOUNTING

Paper 0452/12
Multiple Choice

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

General comments

Candidates should be familiar with all topics on the syllabus and possess a thorough knowledge of accounting. Candidates should be prepared to answer questions which involve calculations and those which do not. It is important to practise calculations so that these can be carried out accurately in the examination.

To have a clear understanding of what is required, it is important for candidates to read through each item (question) very carefully before selecting an option on the answer sheet.

Many candidates possessed a good understanding of double-entry bookkeeping and were able to select the correct key to many items on the paper.

Comments on specific questions

Question 1

Many candidates managed to answer this question correctly and choose the correct option, which was **B**. This question, which the candidates found relatively straightforward, required candidates to identify examples of book-keeping.

Question 2

This question provided a list of assets and liabilities, and required candidates to calculate the figure for capital. The majority of candidates chose the correct option for **Question 2**, which was **A**.

Question 3

This question covered double entry book-keeping. It was fairly straightforward, and most candidates answered correctly. The correct answer was **C**.

Question 4

Candidates were provided with a sales ledger account and were required to identify that a credit balance on this account represented a liability. The correct answer was **C**. A significant proportion of candidates were not able to recognise what the credit balance represented.

Question 6

Candidates were provided with the list price of goods, the amount paid for these goods, and the rate of cash discount. They were required to calculate the amount of trade discount. In order to do this, candidates had to calculate the invoice price (which is $100/95 \times 760 = 800$). The trade discount is therefore $(1000 - 800 =) 200$. The correct answer was **C**. Many candidates found this question challenging. Notably some candidates incorrectly calculated the cash discount as 5% of the list price, i.e. 50 and therefore used an invoice price of $(760 + 50 =) 810$.

Question 7

Candidates generally performed well on this question, choosing the correct option which was **D**. However, some candidates did not seem to understand what it means when the totals of a trial balance agree.

Question 11

This question asked candidates to identify the effect of correcting an error in the posting of a cheque received from a trade receivable. When the cheque is correctly posted, trade receivables would be reduced. The correct answer was **A**. A significant number of candidates did not identify that both trade receivables and trade payables would be reduced. Trade payables would have been increased initially, so the correction would decrease trade payables.

Question 12

This question required candidates to calculate the bank statement balance. They were provided with the bank balance in the cash book and two timing differences. Many candidates correctly identified that the answer was **A**. However, many other candidates found this challenging and selected an incorrect option. Often the incorrect option selected was **B**: \$130 debit (which was how 130 credit on the bank statement would be shown in the cash book).

Question 14

This question covered the topic of control accounts. Candidates were asked to identify the source of information for amounts received from credit customers when a sales ledger control account is being prepared. Many candidates identified that this information would come from the cash book. The correct answer was **B**. However, a significant number of candidates did not seem to know that the sales ledger accounts are not a source of information for preparing a sales ledger control account.

Question 15

Question 15 asked candidates to calculate the revised profit figure after correcting an error. While many candidates selected the correct option, which was **B**, some candidates did not seem to recognise that a debit entry in the purchases account would mean a reduction in profit.

Question 17

This question required candidates to calculate the profit/loss on disposal of some equipment. The correct answer was **B**. The net book value of the equipment was $850 - (3 \times 160) = 370$. So the loss is $100 - 370 = (270)$. Although there were many correct answers, a significant number of candidates did not appear to perform this calculation accurately.

Question 18

Question 18 required candidates to calculate the effect of the change in the provision for doubtful debts, on profit for the year. As trade receivables had increased, and the percentage for the provision had not changed, there would be an increase in the provision and therefore a decrease in profit. The correct answer was **A**. Some candidates appeared to think that profit for the year would increase, and some included the original balance of 700 in their calculation.

Question 21

Many candidates answered this question correctly. The correct answer was **B**. The amount to be charged to the income statement was $(4900 + 1800 - 800 =) 5900$. The most common error was to deduct both the 1800 and the 800 from the amount paid of 4900.

Question 22

This question covered partnership profit sharing. Candidates were required to calculate the interest on Josh's capital, and his share of profit. Adding these two amounts ($3000 + 12\,000$) to Josh's stated salary of 10 000 gives a total of 25 000 to be credited to his current account. The correct answer was **D**. Incorrect responses did not include all 3 items in the calculation.

Question 26

This question covered clubs and societies. Candidates were required to identify which item is included in the receipts and payments account. Most candidates correctly identified that payments to suppliers are recorded in the receipts and payments account. The correct answer was **B**. Some candidates selected purchases of shoes as their answer. However, the question stated that these purchases were made on credit.

Question 29

This question covered the topic of cash discount. It required candidates to identify how a trader could make sure that she was able to receive the cash discount offered to her. The correct answer was **B**. By keeping full accounting records of her transactions with suppliers, the trader can track when payments should be made ensuring that the terms of the cash discount are met. Some candidates did not identify that discount being offered to the trader must be discount received and would therefore relate to invoices received rather than invoices issued. Other candidates confused cash discount with trade discount.

Question 30

Question 30 covered the topic of incomplete records. Candidates were required to calculate the trade receivables balance at the end of the year, and from this, the increase in trade receivables. The closing balance for trade receivables balance was $(15\,000 + 85\,000 - 65\,000 - 2\,000 =) 33\,000$. So, the increase was $(33\,000 - 15\,000 =) 18\,000$. The correct answer was **A**. A significant proportion of candidates incorrectly selected the closing balance of 33 000 as their answer.

Question 32

Candidates found this question challenging. They were required to calculate how much a business owner needs to pay into the bank account so that the current ratio becomes 2 : 1. Current assets are 6000 so current liabilities need to be 3000, As trade payables are 1100, the bank overdraft needs to be 1900. So, the owner needs to pay in 1200 to the bank account to reduce the overdraft from 3100 to 1900. The correct answer was **B**. While there were many correct answers, a significant number of candidates applied the ratio incorrectly, as they seemed to think that the current liabilities should be 2000, i.e. 1/3 of current assets.

Question 34

Candidates found this question relatively straightforward. The question required candidates to select which accounting principle is being observed when a trader values his inventory on the same basis each year. The correct answer was consistency which was **A**.

ACCOUNTING

Paper 0452/13
Multiple Choice

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8	B	20	C	32	B
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General comments

Candidates should be familiar with all topics on the syllabus and possess a thorough knowledge of accounting. Candidates should be prepared to answer questions which involve calculations and those which do not.

To have a clear understanding of what is required, it is important for candidates to read through each item (question) very carefully before selecting an option on the answer sheet.

Many candidates possessed a good understanding of double-entry bookkeeping and were able to select the correct key to many items on the paper.

Comments on specific questions

Question 2

Most candidates answered this question correctly, choosing the correct option, which was **A**. This question, which the candidates found relatively straightforward, required candidates to recognise the accounting equation.

Question 4

This question required candidates to identify which document would be used as evidence of payment by bank transfer. The correct option was **A**. Candidates found this question relatively straightforward.

Question 6

Candidates were provided with the amount paid to a supplier, and with the rates of cash discount and trade discount. They were required to calculate the amount of the invoice entered in the purchases journal. In order to do this, candidates had to calculate the amount due before deduction of the cash discount. The cash discount was 2.5% so the amount paid was 97.5% of the invoice amount. The correct answer was **C** ($15\,600 \times 100/97.5 = 16\,000$). Candidates found this question challenging. One common error was to deduct the trade discount of 20% from the amount paid, to arrive at an incorrect answer of 12 480.

Question 8

Candidates generally performed well on this question, choosing the correct option which was **B**. The bank overdraft and drawings were shown on the wrong side of the trial balance so the correct total was ($23\,500 - 1000 + 2000 =$) 24 500. Looking at the credit side, this figure would be calculated ($25\,500 - 2000 + 1000 =$) 24 500.

Question 11

This question asked candidates to calculate the corrected profit for the year. The required calculation was ($36\,000 + 900 + 260 - 20 - 140 =$) 37 000. The correct answer was **C**. Many candidates found this question challenging. A common incorrect calculation was ($36\,000 + 900 - 260 - 260 + 140 = 36\,520$) or ($36\,000 + 260 + 260 = 36\,520$).

Question 12

Candidates found this question straightforward. The question required candidates to calculate the updated cash book balance. The correct answer was **C**. Most candidates selected the correct option.

Question 14

Candidates found this question challenging. The sales returns account had been debited instead of the purchase ledger account. This meant that the purchase ledger account, and therefore the total of the purchase ledger balances, was overstated. The correct answer was **A**.

Question 17

This question required candidates to select the reason for charging depreciation on a non-current asset. The correct answer was **B**. While most candidates answered correctly, a significant number of candidates selected option **D** which indicated that they thought that depreciation was charged in order to show the asset at market value in the statement of financial position. Non-current assets are shown at net book value in the statement of financial position.

Question 19

This question required candidates to calculate the profit or loss on disposal of a motor van, and to identify how that figure would be shown in the disposal account. The correct calculation was $2750 - (11\,500 - 9000) =$ profit 250. This amount would be debited to the disposal account (and credited to the income statement). The correct answer was **B**. Although most candidates answered correctly, a significant proportion selected option **A** which indicated that they thought there would be a credit entry to the disposal account.

Question 20

Question 20 required candidates to identify the correct double entry for an increase in the provision for doubtful debts. The correct answer was **C**. A significant proportion of candidates selected the correct accounts but reversed the double entry and therefore incorrectly selected option **D**.

Question 21

Candidates found this question straightforward, and most selected the correct option which was **A**.

Question 22

This question required candidates to use figures from a list of balances, to calculate profit for the year. The correct calculation was $(78\,000 + 11\,000 - 20\,000 - 9\,000 =) 60\,000$. So the correct answer was **D**. One common error was to deduct the figure for drawings.

Question 23

Many candidates answered this question correctly. Candidates were required to calculate the figure for net purchases which would be shown in the income statement. The correct answer was **B**. Some candidates incorrectly only deducted the purchases returns.

Question 25

This question required candidates to identify that retained earnings are directly affected by dividend policy. The correct answer was **D**. Some candidates appeared to think that the ordinary share capital would be directly affected by dividend policy.

Question 27

This question covered clubs and societies. Candidates were required to identify how subscriptions received and subscriptions written off, are recorded in a receipts and payments account. The correct answer was **D**. Amounts received are debited in the receipts and payments account. As only amounts received and paid are shown in the receipts and payments account, no entry is made there for subscriptions written off.

Question 32

Candidates found this question challenging. The question required candidates to calculate the figure for revenue, from various figures provided. As closing inventory was 1000 more than opening inventory, cost of sales = $13\,000 - 1\,000 = 12\,000$. Gross margin is 20% of sales revenue, so cost of sales is 80% of sales revenue. Sales revenue is therefore $12\,000 \times 100/80 = 15\,000$. The correct answer was **B**.

Question 33

Candidates found this question challenging. Candidates were required to establish the effect of taking out a long-term bank loan and using some of the funds to pay some suppliers early. The correct answer was **A**. Most candidates identified that the trade payables turnover (days) would decrease. However, some candidates incorrectly selected option **B** which stated that ROCE would increase. As there has been an increase in long-term liabilities, ROCE would decrease.

ACCOUNTING

Paper 0452/21
Paper 21

There were too few candidates for a meaningful report to be produced.

ACCOUNTING

Paper 0452/22
Paper 22

Key messages

Discussion type answers that attract up to five marks each continue to see improvement upon previous examinations. This is encouraging but candidates must look carefully at the scenario posed as they are not standard questions. The differences between offering a trade discount or a cash discount (**Question 3d**) focused on regular customers, not **all** customers. Too many candidates would consider the general merits of offering trade discounts to all customers. Read the question carefully to determine exactly what the business solution requires.

General comments

The sales journal, sales returns journal, customer account and the sales ledger control account are all interrelated within an accounting system. Candidates need to be able record entries in all of them and practice exercises that fully integrate the bookkeeping as required for example in **Question 1**.

Comments on specific questions

Section A

Question 1

- (a) The first activity for recording accounting documentation is via the books of prime entry. In this scenario it required sales invoices and sales returns to be entered into the correct journals. Entries for Bwana were usually correctly entered, Naomi was invariably incorrect due to the need to deduct trade discounts of \$41 and \$23 before entering into the sales journal. Trade discount does not enter the accounting system. The narrative for transferring the total of the journal should be an account name such as the sales account. Often there was a description or a missing date or both.
- (b) Sales returns follow the same approach with trade discount needing to be deducted from Naomi's entry with the incorrect result of \$20 regularly seen. Errors regarding narratives again applied here.
- (c) The sales and return entries for Naomi needed to be transferred into her personal account. Sales were often labelled as purchases, with figures often reversed and a balance brought forward of \$450 was either omitted or appeared as an opening credit balance. Similarly, discount allowed was often omitted or shown as discount received as a debit entry. The transfer of sales (and purchases information if that aspect of the accounting system is examined) require regular practice and the links to the appropriate transfer of information reinforced upon candidates.
- (d) The sales ledger control account is a checking mechanism that brings together all of the balances that will impact upon the total of the sales ledger account balances. Total entries were required from the journals, a common error was to post all the invoices and returns credit notes into this account. This would be unrealistic and an immense waste of time as entries are being duplicated. The entries for bank payments were often not totalled and discount allowed, and irrecoverable debt was omitted.

The integration of information linked all parts of this question and need regular practice. For many candidates this question was challenging and were often unable to achieve more than single figure marks.

Question 2

- (a) The candidates were required to produce a manufacturing account with the usual expected range of adjustments to the factory overhead expenses. The standard of answers was mixed and whilst most were aware of the different sections involved, there were many occasions when items were in the incorrect part of the statement or should not have been included at all. Common examples of errors were to omit direct wages (machine operators) from prime cost or to include Supervisors' wages instead of in the overheads section. The delivery vehicle driver is an expense that is not related to manufacturing and will be charged to the income statement. In addition to these fundamental errors, the poor labelling of items such as raw materials consumed and depreciation needed a reference to the specific non-current asset being charged within the statement. The work-in-progress adjustment should be shown separately following the totalling of prime cost and factory overheads and not included within the overheads section.
- (b) This question asked for an extract showing the current assets section of a statement of financial position for Sara's manufacturing business. There were two aspects that were often overlooked. Firstly, each category of inventory should be identified separately. Many candidates only included finished goods. Secondly, the prepayment for insurance from **part (a)** required inclusion with the other current assets of trade receivables and cash at bank and this was frequently omitted.
- (c) Many principles were given here. The qualities such as the efficiency of the staff are not recognised within the financial statements and therefore 'money measurement' is being complied with.
- (d) The decision to supply a drama school with costumes at the cost of an increased credit payment period was an opportunity to gain several marks for the majority of candidates. Advantages were identified regularly but disadvantages were too focused upon irrecoverable debts instead of the risk of irrecoverable debts and the potential to impact upon liquidity. Many answers referred to income throughout the paper. There is a need to specify if the comment refers to 'sales', 'profit' or 'cash receipts' and this distinction is relevant to all discussion questions.

Question 3

- (a) This question required the application of an incomplete records approach through the use of a known mark-up ratio. This allowed the gross profit to be calculated and the trading account to be reconstructed. For many candidates this was unknown territory and often used either a cash payment figure to suppliers instead of purchases, or alternatively used \$8000 for the purchase of a motor vehicle which represented an error in principle. Marks could be obtained for the correct entries of operating expenses, but this does not mask an area that needs development in terms of the reconstruction of accounting statements from incomplete information.
- (b) **Part (b)** was a capital account activity linked to the information provided in **part (a)**. The capital account and its related ledger entries indicated few candidates were familiar with how capital is increased, such as by profits for the year and the reduction through the taking out of regular and additional cash drawings. The actual cash drawn from the bank of \$14600 was also used incorrectly as a drawings figure. The credit entry of \$15000 was made via the bank and too often this was recorded as balance b/d.
- (c) The mark scheme gives many examples for this one-mark question. Answers such as 'prevents errors' and 'prevents fraud' were not rewarded as emphasis is placed upon it is 'easier to detect errors and frauds. Similarly, a single reference to 'duality' was too vague and required a more detailed explanation.
- (d) This question has been highlighted in the 'key messages' section with the need to highlight that increased trade discount would be offered to regular customers only. A general discussion on the impact on gross profit was not identified or too often only profit was mentioned incorrectly. 'Bulk buying' and 'new customers would increase' did not necessarily follow and featured in many answers. Cash discounts attracted better answers and here the impact upon profit was relevant. The assumption that this would reduce irrecoverable debts is not automatic and the risk of reducing them needing to be highlighted. A frequent reference to 'paying on time' is not the same as 'paying earlier' which is the purpose of offering a cash discount. Both types of discounts should be discussed, and weaker answers often discussed one type only, without identifying which one.

Question 4

- (a) The importance of amending incorrect transactions through the journal is fundamental to manual and computerised bookkeeping systems. The majority of candidates would achieve one mark for one of the returns figures, sales journal was frequently used instead of the account name and error three was shown as debit \$81 and credit \$18. Error four was often incorrectly shown to petty cash instead of to Cole, a supplier account.
- (b) The suspense account linked to the error corrections in **part (a)** showed improvement on previous examinations. The tendency to include all of the errors is less frequent but, even so, the initial example given in the paper for rent and wages of \$350 would appear. The difference arrived at by balancing off the suspense account should be labelled correctly, and it is not a balance b/d and will only arise after the construction of the trial balance.
- (c) This was an opportunity to apply logic and understanding on how the errors would impact upon the draft profit. Most answers would gain two marks but often only one figure was included for returns instead of two, or the omission of motor expenses with an additional problem of the adjustments being added or subtracted when the opposite was required. This type of question needs more practice and answers that are laid out either in a tabular form with +/- or as given in the mark scheme will often gain higher marks. Too often a net adjustment was given without supporting workings and marks could not be awarded.
- (d) Very few correct answers were seen and the importance of key words such as 'material' and 'significant' were not offered. Many attempted to describe compensating errors or errors not affecting the trial balance.

Question 5

- (a) This question asked candidates to calculate five accounting ratios. These ratios are fundamental to enable meaningful interpretation of financial information to be carried out. For many candidates, the formula had not been committed to memory or lacked the understanding of the term capital employed or how inventory turnover could be calculated. A common error when calculating margins was not ensuring that the opening and closing inventory figures are identified correctly. This resulted in the incorrect calculation of the gross margin, although an own figure was permitted for the profit margin. The resulting ratios were also calculated but not expressed correctly as percentages or in proportion to one (0.2:1) for the liquid ratio. These were careless errors and candidates should always express ratios with the correct descriptor and to the prescribed number of decimal places.
- (b) This was not answered well. Many candidates focused on the ratios in **part (a)** and the lack of liquidity in the business. The thrust of the question related to the gross and profit margins and the possible reason why they may be different to that of a nearest competitor. The reduction in selling price and its outcome upon gross profit could be argued either way but few answers followed this line of reasoning. A mark was often gained for identifying that increased advertising/expenses would reduce the net profit, or the counter argument that increased advertising would generate extra sales.
- (c) The question is a very frequent business scenario. Should the business take out a five-year loan to finance its future expansion? This was usually well answered by most candidates with reasonable time allowing the loan to be repaid and leading to increased profits being popular answers. Common points against taking out a loan centred upon interest charges being incurred and the need to supply some form of security such as personal assets to the bank. Four or five marks gained here represented a welcome return across the candidate spectrum.
- (d) A very easy last part to the question and the majority would gain this final mark. Some candidates did put forward that it would be in the bank manager's interest, but this was not relevant to the question.

ACCOUNTING

Paper 0452/23
Paper 23

Key messages

In order to achieve a good grade in this type of examination, it is essential to have a thorough understanding of all the topics on the syllabus. In addition to recording financial information and preparing financial statements, candidates must be able to apply their knowledge to various scenarios. Working through questions in textbooks should be supplemented by studying past examination papers.

Candidates should make sure they understand exactly what each question requires before attempting an answer. It is, therefore, recommended that candidates read each question very carefully before attempting an answer.

It is important that all words and figures are legible. The handwriting on the majority of scripts was very clear but a few candidates submitted scripts which were very difficult to read.

Where candidates require additional space in which to write their answers, it is recommended that they indicate where that additional work can be found e.g. 'See page.....' or 'Continued on Page...'. If a question is attempted twice the candidate should cross out the version which is to be ignored.

General comments

All the questions on the paper are compulsory so it is essential that candidates are familiar with, and have an understanding of, all the topics on the syllabus. The day-to-day records of a business are based on double-entry book-keeping, so it is important that candidates have a good knowledge of this system. However, as well as recording transactions and preparing financial statements, candidates must also be able to interpret the information in those records.

In addition to recording the correct figures in the accounting records, it is important that the correct terminology is used. Inappropriate abbreviations such as C of P (cost of production), COGS (cost of goods sold), and BBD (balance b/d) should be avoided.

Candidates are now familiar with the three five-mark questions which require them to offer advice on a particular course of action and to provide points for and against and give a recommendation. It is recommended that candidates plan their answer before writing it out so that the points can be arranged in a logical order. Some candidates provided a list of correct statements but they were not valid points in the particular scenario, so it is essential that the scenario is read very carefully to ensure that candidates understand exactly what is required.

Comments on specific questions

Question 1

- (a) (i) An opening journal entry was required. Most candidates correctly debited the assets and credited the liabilities. A very common error was to completely omit the capital.
- (ii) Candidates were required to state two advantages of double entry. Many candidates appeared to struggle to provide appropriate answers. Many incorrectly suggested that fraud and errors were completely eliminated.

- (b) Using data provided, a three-column cash book had to be prepared. This should have been a straightforward question, however the average candidate often gained only half marks. Common errors included:
- Omission of the opening bank balance.
 - Incorrect entries for the contra item.
 - Inclusion of the goods sold on credit.
 - Omission of the discount received from Latif.
 - Bringing down a credit balance on the cash column.
- (c) This question proved to be rather difficult for many candidates and many incorrectly attempted to prepare a bank reconciliation statement. A calculation of the correct bank balance was required. This could have been done using the bank statement balance and adjusting for the outstanding lodgement and the bank error. Alternatively, the balance brought down on the cash book could have been used and adjustments made for the bank charges and the cash sales.

Question 2

- (a) A manufacturing account had to be prepared using data provided. Many candidates were able to earn high marks. A large number of candidates incorrectly started with the revenue and tried to prepare an income statement. Other common errors included:
- Inclusion of extraneous items such as expenses relating to the office.
 - Placing items in incorrect sections such as factory Supervisor wages in the prime cost section.
 - Incorrect labels or omission of labels such as cost of materials used, prime cost etc.
 - Omission of sub-total of prime cost and overheads.
 - Incorrect calculation of the rates and insurance relating to the factory.
- (b) Candidates were required to calculate the gross profit of a manufacturing business. The majority of candidates presented their answer in the form of the trading section of an income statement. Common errors included:
- Omission of the cost of production calculated in the manufacturing account.
 - Inclusion of extraneous items such as manufacturing account items and office expenses.
- (c) Advice had to be provided to a manufacturer on whether to continue to purchase some goods from another manufacturer or whether to manufacture all the required goods within the business's own factory. Some candidates seemed to appreciate that the business was already purchasing finished goods to supplement their own output and regarded this as a new venture. As with many of the discursive questions, some candidates only provided comments on the advantages *or* the disadvantages rather than providing a balanced statement followed by a recommendation.

Question 3

- (a) Candidates were given the value of the opening and closing inventory of a trader and were required to prepare the inventory account. Despite similar questions being asked in the past, this proved very challenging for the majority of candidates and there were very few wholly correct responses. The opening inventory would appear as a debit balance brought down from the previous year and, at the year-end, this would be transferred from the credit of the inventory account to the income statement. The closing inventory would be transferred from the income statement to the debit of the inventory account to start the new financial year. Weaker learners included extraneous item such as trade receivables, irrecoverable debts and rent.
- (b) A provision for doubtful debts account was required. This also caused problems for many candidates, even though similar questions have appeared on past papers. Once again, extraneous items were often included, the most common ones being trade receivables and irrecoverable debts. The opening balance brought down from the previous year (\$300) should have appeared on the debit side. At the end of the year, the new provision (\$335) should have been debited and carried down to the credit side to start the following year. The difference should be transferred to the income statement.

- (c) A rent payable account had to be prepared. The preparation of an expense account is quite common on examination papers but many candidates gained only half of the available marks. Common errors included:
- Inclusion of extraneous items.
 - Omission of dates.
 - Showing the payments as one entry rather than two separate entries on different dates.
 - Incorrect wording such as 'rent charge' in lieu of 'income statement'.
- (d) (i) Candidates were required to state how the prudence principle is applied to the valuation of inventory. A common response was to define the principle, which was not what the question asked. The prudence principle is applied to inventory as it is valued at the lower cost and net realisable value.
- (ii) This required candidates to state how the matching principle was applied in the rent payable. Once again, there were many attempts at definitions of the principle but not how it was applied. The matching principle is applied to the rent account as only the rent relating to the current year is transferred from the rent account to the income statement.
- (le) Advice had to be provided to a trader who rented premises on whether to purchase business premises using a bank loan. Once again, many candidates did not provide a balanced discussion, concentrating on only one aspect. Consequently, those candidates were not able to earn the recommendation mark.

Question 4

- (a) Candidates were required to prepare journal entries to correct five errors. Those candidates who had a thorough knowledge and understanding of double entry were able to earn high marks. Error number one and error number four caused problems for many. Some candidates used incorrect details such as purchases journal, instead of purchases, sales returns journal instead of sales returns account and trade receivables instead of the individual customer's account.
- (b) A suspense account had to be prepared. Once again, a thorough knowledge of double entry helped some candidates to earn a good mark. The original difference on the trial balance was provided, but this did not stop some candidates inserting their own difference or bringing down an own figure balance on the suspense account. Many candidates incorrectly included entries for error number one. This did not affect the balancing of the trial balance so would not appear in the suspense account.
- (c) A table had to be completed to indicate the effect of the five errors on the gross profit and profit for the year. There were very few wholly correct responses. Error four created the most problems as that error affected both the gross profit and the profit for the year.

Question 5

- (a) The income statement of a service business had to be prepared. There were some good answers. Common errors included:
- Inclusion of extraneous items such as bank, non-current assets, dividends, retained earnings and share capital.
 - Incorrect adjustments made for the revenue and the insurance expense.
 - Incorrect depreciation charges where it was quite common to see the depreciation for the year calculated as a percentage of the provision of depreciation.
- (b) Candidates were required to complete a statement of changes in equity. Some candidates were familiar with this type of statement and were able to earn good marks. Other candidates appeared less familiar with this type of statement and struggled to earn marks. Common errors included:
- Inclusion of extraneous items such as bank and non-current assets.
 - Unacceptable wording such as 'general reserve' in lieu of 'transfer to general reserve', 'profit' in lieu of 'profit for the year'.
 - Items entered in incorrect columns such as dividend entered in the share capital column.

- Incorrect totalling of columns.
 - Entering the opening balances as the closing balances and working back to insert 'missing' figures on line one.
- (c) (i) The majority of candidates were able to explain that the company did not hold inventory because it was not a trading company but provided services and the clients provided their own cleaning materials.
- (ii) Stating a reason why the service company did not require a provision for doubtful debts proved quite challenging. Incorrect responses included statements about the company not having credit sales, not having any trade receivables, and getting cash in hand at the end of each job.
- (d) Advice had to be provided to the directors of a company on whether to issue shares or debentures in order to raise funds for expansion. Many candidates were clearly aware of the differences between shares and debentures and were able to earn good marks. Others tended to state the advantages and disadvantages of *either* shares or debentures and did not provide a balanced piece of advice.