

ACCOUNTING

Paper 9706/11 Multiple Choice
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	16	B
2	C	17	B
3	B	18	D
4	C	19	C
5	B	20	C
6	B	21	C
7	B	22	A
8	D	23	D
9	B	24	A
10	D	25	A
11	B	26	D
12	C	27	C
13	B	28	D
14	A	29	C
15	A	30	B

Key Messages

Many candidates showed a lack of knowledge of basic double entry and recognised the distinction between capital and revenue income and expenditure in the given circumstances.

General comments

The mean mark on the paper was 18.

Quite a few questions appeared to be easy for candidates. These were **3, 8, 10, 16, 19, 22, 23, 24** and **26** were answered correctly by most candidates.

There were only four questions which proved difficult to candidates. These have been reviewed here.

Specific questions

Question 4

This was a basic double entry question and should not have caused any difficulty. It asked for the entries required to return faulty fixtures and fittings purchases by a business. The correct answer was **C**, debit the supplier and credit fixtures and fittings. A popular wrong answer was D, where purchases returns were credited. As the items purchased were of a capital nature it should have been the non-current asset account which was credited.

Question 7

This question also tested knowledge of capital and revenue items for a motor vehicle retailer. As the business traded in the sale of motor vehicles, income from that source is revenue and not capital.

Question 21

This should have proved straightforward. Candidates were asked to identify the profit available for appropriation from the four figures given. The only item which should have been deducted from the profit for the year **before** interest was the interest on a partner's loan.

Question 27

This question was from the costing section of the paper. The correct solution was best calculated by working backwards. The selling price of the unit was \$384. The mark-up was 50% so the margin was one third. This gave a profit figure of \$128. The total cost was therefore \$256. The total of direct material, labour and selling and distribution costs was \$168. Thus the factory overheads were \$88 (\$256 - \$168). As 8 hours of direct labour were used the absorption rate per direct labour hour was \$11.

Overall comment

As stated earlier, the results of this paper were a significant improvement on the ones for the June sitting.

ACCOUNTING

Paper 9706/12
Multiple Choice

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

Key messages

There are four major areas where further work by candidates and teachers should improve future performance:

- the calculation of accruals and prepayments.
- the impact on profit of an adjustment for doubtful debts.
- the preparation of the balance on a suspense account.
- The calculation of an overhead absorption rate.

General comments

The mean marks were 16.

Six of the questions were correctly answered by 70% or more of the candidates. There were five questions which proved challenging to some candidates. These will be reviewed here.

Specific questions

Question 2

This required candidates to calculate a year end accrual or prepayment from given data. The candidates were required to look at the overall requirement of a total of \$1400 (14 staff x \$100) being payable for the training. Half of this amount was paid in April (\$700). The accounts should have shown a charge of \$1000 (10 x \$100). Thus the accrual was \$300, being the key **A**.

Question 6

The candidates were required to calculate the adjustment to the profit for the year arising from writing off a bad or irrecoverable debt and adjusting the doubtful debt provision for the year. Bad debts **must** always be written off before adjusting the provision. When this was done the bad debt written off was \$1600 and the resulting adjustment to the provision was a decrease of \$480. The net of these two figures was a reduction of the profit for the year of \$1120, being the key **B**.

Question 10

This required a calculation of the balance on a suspense account from the given data. It should have proved straightforward with the key being **A**. This was the difference between the \$400 figure which should have been credited to the account and the figure of \$40 which actually had been credited.

Question 22

This was a question asking an assessment of the statements given on the working capital of a business. Statements B, C and D would all reduce the working capital. This left the only answer as **A**.

Question 30

This required the calculation of an overhead absorption rate from the data given. The most common answer was to divide the apportioned overheads by the direct labour hours. Candidates should have added the re-apportioned service department costs and divided the total by the total machine hours, rather than direct labour hours, being the larger of the two alternatives.

ACCOUNTING

Paper 9706/13
Multiple Choice

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

Key messages

Overall the paper was well attempted.

General comments

Mena marks for the paper were 18. A high number of questions proved easy: **3, 5, 6, 7, 16, 17, 18, 23, 28, 29**. There were only five questions which seemed to prove slightly challenging for candidates and they have been reviewed here.

Specific questions

Question 10

This required candidates to assess the valuation of an item of inventory. The most common error was to deduct the repair cost of the item from its original cost rather than its estimated selling price. This led to candidates opting for **A** rather than the key of **B**.

Question 11

This was a knowledge based question asking for an advantage of keeping double entry books of account. Statements B, C and D could all be achieved without double entry. This left the key of **A**.

Question 13

With this question the key was **B**. Candidates should have ignored any comment about the provision for doubtful debts as this is never recorded in the sales ledger control account. This left the other error to be corrected. As the item had been entered on the wrong side of the account the correction required a 'doubling up' of the amount, leaving the key as **B**.

Question 27

This question required candidates to identify the type of cost involved. A, B and C were implausible. Thus the only answer could have been **D**.

Question 28

A significant number of candidates selected D, rather than the key of **B**. They had incorrectly assumed that all sales were on a cash basis, ignoring the closing figure of trade receivables. This would have reduced the cash received from sales, thus leading to the correct key of **B**.

ACCOUNTING

Paper 9706/21
Structured Questions

General comments

Overall performance was highly satisfactory with many excellent scripts.

Question 2 was very well answered but the majority of candidates found **Question 1** challenging.

Comments on specific questions

Section A

Question 1

- (a) Many candidates used the unadjusted supplies value of \$2697 without considering the opening and closing payables.
- (b) Very few candidates were able to calculate the subscriptions posting to the income and expenditure account correctly although those who provided workings did generally gain some credit. Very few candidates were able to calculate the life membership transfer. The depreciation calculation was invariably incorrect. Candidates who did not provide any workings did not get even partial credit. A significant number of candidates did not account for the written off subscriptions or provided incorrect labelling (using profit rather than surplus).
- (c) The statement of financial position was not well prepared and there were a range of common errors and omissions. Very few candidates calculated the accumulated depreciation correctly and the subscriptions in arrears entry was generally incorrect as candidates did not adjust for the written off subscriptions. Most candidates were not able to derive the opening balance of the accumulated fund or the closing balance of the life membership fund.
- (d) Most candidates were unable to explain the required accounting treatment.
- (e) Candidates struggled with the explanation with many incorrectly discussing bank reconciliations.

Question 2

- (a) The majority of candidates prepared the account to a high standard with many gaining full marks. A common error was the inclusion of the interest on the loan.
- (b) This was also very well answered with many candidates gaining full marks and those who had made errors in part (a) generally carried their own figures forward and thus obtained credit.
- (c) This part was very well answered with by most candidates.
- (d) The capital accounts were generally well prepared with most candidates making the correct goodwill entries.
- (e) Most candidates were able to make most of the required adjustments correctly although there were relatively few fully correct statements. The most common errors were not making the adjustment from the original profit for the year figure of \$90 000 and the incorrect treatment of the inventory valuation error adjustment.

Question 3

- (a) This part was well answered up to the re-apportionment of the maintenance department overheads. Many candidates then made this apportionment correctly and totalled and thus achieved full marks. Some candidates made careless arithmetical errors and a few candidates erroneously subtracted the re-apportioned maintenance overheads.
- (b) This was generally well answered with most candidates able to calculate the required absorption rates for the two departments.
- (c) (i) Most candidates calculated the prime cost correctly but relatively few then identified the total overhead cost. The most common error was to use 110 machine hours and 80 direct labour hours rather than 100 and 60 respectively.
- (ii) Many candidates calculated the price correctly but many incorrectly added 20% to their total cost. Some candidates did not round their answer as was required.
- (d) Performance was varied with many candidates explaining over absorption and under absorption to a high standard. A significant number of candidates showed little understanding.

ACCOUNTING

Paper 9706/22
Structured Questions

Key Messages

Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings.

In written questions, candidates should make sure that they provide sufficient development to their answers where required.

General Comments

Candidates performed reasonably well on the cost accounting question.

The presentation of answers in the financial accounting questions needs to be improved. Candidates must practice the preparation of income statements and statements of financial position in order to produce acceptable statements.

Comments on Specific Questions

Question 1

The question concerned a not-for-profit organisation.

- (a) Few candidates were able to prepare the income statement for the club shop accurately. A large number of candidates did not account for the opening and closing trade receivables in calculating sales and the opening and closing trade payables in calculating purchases. Very few candidates accounted for the bad debt written off correctly. As this was described as 'trade receivables that would not be recovered', it should have been included in the income statement for the club shop, not the income and expenditure account of the club.
- (b) In preparing the income and expenditure account of the club, calculation of the correct subscriptions received proved challenging to many candidates. Candidates appeared to have difficulty in accounting for the difference between subscriptions in arrears and those in advance. Very few candidates calculated the correct figure to transfer to the income and expenditure account for life memberships. The balance of the life membership fund at the end of the year was \$4600, so \$460 of this should have been transferred. Most candidates transferred \$210, thus ignoring the fund opening balance of \$2500.

While most candidates calculated the surplus for the year according to their own figures, many were not rewarded as they labelled this as a profit. It is important to use the correct terminology in all financial statements.

- (c) Preparation of the statement of financial position was not well done by the majority of candidates. Again, candidates seemed unable to differentiate between subscriptions in arrears (a current asset) and subscriptions in advance (a current liability). Given that all of the relevant data was included in the question, very few candidates correctly calculated the opening balance on the accumulated fund.

- (d) When explaining why no amounts had been entered in the financial statements for the hours worked by volunteers, many candidates were able to correctly state that no wages had been paid, but few identified that this was due to the money measurement concept.
- (e) In explaining why prepayments and accruals are included in the financial statements, there were a number of good responses identifying the accruals / matching concept.

Question 2

The question assessed candidates' knowledge of a sole trader's accounts involving the calculation of a corrected profit for the year as a result of errors being identified and the subsequent preparation of the corrected statement of financial position.

- (a) The calculation of the corrected profit was generally well done by most candidates. Some candidates found calculation of the adjustments for insurance and for depreciation complex.
- (b) Preparation of the statement of financial position was less well done. Having accounted for the necessary adjustments in the previous task, it was a matter of incorporating these into the corrected statement of financial position. Many candidates were unable to account for the depreciation correctly, the accruals for loan interest and insurance were frequently omitted and the structure of the account was often less than satisfactory. Candidates must become accustomed to using the correct structure and the correct labels for a statement of financial position.
- (c) This task required candidates to identify five external users of accounting information and state their interest in the information. Many candidates were unable to differentiate between internal users and external users. The candidates who made correct identification generally gained the second mark for identifying their interest.

Question 3

The question focussed on the costing elements of the syllabus. All tasks concerned marginal costing

- (a) Most candidates were able to correctly calculate the contribution per unit, the budgeted break-even point and the margin of safety.
- (b) This task required candidates to re-calculate the contribution per unit, the budgeted break-even point and the margin of safety after taking account of changes to the forecasts. Despite good answers to **part (a)**, this proved more difficult to a number of candidates. Calculating the contribution per unit involved amending the selling price, the sales volume, direct labour costs and fixed costs. Only a minority of candidates were able to cope with these adjustments in order to recalculate the correct contribution per unit.
- (c) Asked to calculate the monthly break-even point in revenue, the majority of candidates did not read the question requirements carefully and gave the annual break-even point rather than monthly.
- (d) This task required candidates to prepare a break-even chart. Whilst this was attempted by virtually all candidates, mostly to a high standard, some did not provide any labels – this is where the marks were awarded. Less well prepared candidates prepared a p/v chart.
- (e) Most well prepared candidates performed well on the question and stated three assumptions made when preparing a break-even chart.

- (f) This part proved to be more difficult for the majority of candidates. Make or buy was placed in the stem in order to provide a clue as to provide direction to candidates. Some candidates still stated make or buy, which was not rewarded. Good candidates stated limiting factor decisions or special orders, but only a minority of candidates went on to develop their answers to gain additional marks.

ACCOUNTING

Paper 9706/23

Structured Questions

Key Messages

Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings, but in their absence, students are unfairly penalising themselves.

In written questions, candidates should make sure that they provide sufficient development to their answers.

General Comments

Candidates need to work on their presentation of answers in the financial accounting questions. Candidates must practice the preparation of income statements and statements of financial position in order to produce acceptable statements.

Comments on Specific Questions

Question 1

The question concerned a sole trader who did not keep proper books of account. Candidates were required to prepare an income statement and a statement of financial position. For the final parts of the question, candidates were required to demonstrate knowledge of the treatment of irrecoverable debts.

- (a) Whilst the calculation of sales revenue and purchases was well done by a number of candidates, some did not show any workings. Many candidates were unaware of how to deal with the goods taken for own use by the owner of the business. Calculation of the delivery vehicle expenses proved to be challenging for most candidates, involving the preparation of a cash account to find the balancing figure of expenses paid.
- (b) Preparation of the statement of financial position resulted in mixed responses. Presentation of the statement is a fundamental aspect of financial accounting and should really result in few problems. Many candidates were unable to calculate the opening balance on the capital account from the data in the question and presentation and calculation of the non-current assets was generally not satisfactory.
- (c) Most candidates were able to state that profits would reduce as a result of the adjustments for bad and doubtful debts, although some did not adjust trade receivables for the write-off before calculating the provision.
- (d) Whilst most candidates were able to state that inclusion of the provision for doubtful debts avoided overstating trade receivables and profits, few developed their answer to refer to the accounting concepts involved.

Question 2

The question tested candidates' knowledge of partnership accounts, requiring the preparation of a partnership income statement and subsequent preparation of a partner's current account. The final parts of the question tested candidates' knowledge of the principles of depreciation.

- (a) Most candidates were able to gain good marks in preparing the income statement of the partnership. A few candidates had difficulty in the treatment and calculation of rent received and

some did not adjust office expenses for the personal use of a partner's home telephone. A large number of candidates are still using old terminology, referring to the profit for the year as 'net profit' which needs to be avoided.

- (b) As was the case with the previous part, many candidates performed well in preparing the partner's current account. A common error was the entering the monthly salary in the current account rather than calculating the annual amount.
- (c) The majority of candidates were able to correctly identify four possible causes of depreciation of non-current assets.
- (d) Whilst a large number of candidates were able to identify the concepts of prudence, matching (accruals) and consistency as relevant concepts applying to depreciation, many candidates did not explain these concepts.
- (e) The final part of the question required candidates to state why the reducing balance method of depreciation is more appropriate for non-current assets like motor vehicles. Responses were generally not satisfactory. Few candidates recognised that as maintenance costs increase in later years, this is offset by a reduced depreciation charge.

Question 3

The question focused on the costing elements of the syllabus.

- (a) Most candidates were able to correctly calculate the total direct cost incurred for each product, though some candidates entered the cost for one product only.
- (b) The second task required candidates to allocate overheads over three departments according to criteria given in the question. Responses were very mixed with a number of totally correct answers. However, less well prepared candidates appeared unable to ascertain an appropriate basis of allocation to use in respect of power and depreciation.
- (c) This part of the question proved challenging to many candidates. Having already calculated the direct cost and allocated the overheads in the previous parts, this task required candidates to combine their previous answers, calculate the cost per unit and multiply this by the number of units in inventory. Many candidates provided incorrect responses and the majority of these were produced without showing any workings, hence no marks were awarded. Most candidates calculated the correct number of units in inventory for one mark, but failed to correctly calculate the unit cost.
- (d) Preparation of the manufacturing account was not well done by most candidates. Many were able to correctly calculate the prime cost according to their own figures, but incorporating the overheads from their previous workings proved troublesome.
- (e) Finally, candidates were required to produce an income statement for the three months, and again, many responses were not satisfactory. Many candidates did not reconcile all of their previous workings with the requirements of the task. Few appreciated that the rent, depreciation and power overhead costs had already been absorbed into the costs of the units and consequently deducted these again from the gross profit. The only overheads that were unaccounted for were the sales and administration costs.

ACCOUNTING

<p>Paper 9706/31 Multiple Choice (Supplement)</p>

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

Key messages

Focus on a number of areas would prove beneficial to candidates:

- double entry bookkeeping, specifically with reference to disposal of non-current assets and, suspense accounts
- calculation of investor ratios
- impact on equity of the issue of shares
- marginal costing and output required to achieve a given profit
- standard costing variance calculations and the need to flex the budget

General comments

The mean marks on this paper were 15.7. Several questions were answered well. There were some questions which candidates found challenging. These have been reviewed here.

Specific questions

Question 3

The key to this question was to realise that the rate of depreciation charged was 10% on cost. This meant that the charge for depreciation for 2014 was \$5900. The calculation of the net book value was, therefore $\$59\,000 - ((6000 - 1000) + 5900)$, giving the key of **D**, the amount of \$1000 being the depreciation on the asset sold.

Question 4

The question stated that the assets had been sold for \$69 500. This was all the assets, including trade receivables as no statement regarding them was made.

The total amount of cash payable was, therefore $\$69\,500 - (3500 + 1000)$ (the selling costs and the existing overdraft), giving the key **C**.

Question 5

This question proved challenging to candidates. The trial balance would not have balanced by \$760, as there would have been credits in both the provision for unrealised profit account and the provision for doubtful debts. Thus a debit entry of this amount would have been made in the suspense account. To correct it a credit entry was required with the debit to the income statement. This was the key **C**.

Question 8

The first thing to do in this question was to calculate the profit available for the payment of the ordinary dividend. This was \$71 000 ($\$80\,000 - \text{debenture interest and preference dividend}$). This amount was then paid as dividend on 200 000 ordinary shares, which was \$0.355 per share. As this equated to a dividend yield of 10% the market price of the share was \$3.55.

Question 21

The new contribution per unit is \$165. The total of the new fixed costs (\$176 000) and required profit (\$140 000) of \$316 000 should have been divided by the new contribution of \$165 to give the answer of 1916 units.

Question 28

This question required the calculation of a material usage variance. In order to calculate it candidates first needed to calculate the actual usage of material by dividing \$14 850 by \$7.50, giving 1980 metres. The standard usage of material for the actual output should have been 1800 metres. Thus the variance was the difference in usage (180 metres) x the standard price per metre of \$8, giving the key **D**.

ACCOUNTING

Paper 9706/32
Multiple Choice (Supplement)

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

Key messages

Focus on a number of areas would prove beneficial to candidates:

- the treatment of an increase or decrease in the provision for unrealised profit for a manufacturing business
- calculation and use of investor ratios
- knowledge of IAS10, events occurring after the statement of financial position date
- treatment of variances to adjust a budgeted profit figure to arrive at the actual figure

General comments

The mean marks on this paper were 14.2. A number of questions proved challenging to candidates and they been discussed here.

Specific questions

Question 16

This required the use of investor ratios for the solution. The first thing to do was calculate the earnings per share by dividing the market price per share by the price earnings ratio of 4 to give \$0.40. As there were 200 000 ordinary shares in issue this made the profit for the year \$80 000 ($\$0.40 \times 200\,000$). The total dividend paid was, therefore $(\$80\,000 - 50\,000) \times 50\%$, being \$15 000 and dividing the answer by the number of shares, to arrive at the key **A**.

Question 25

The issue with this question was what should be regarded as 'other payables'. Many candidates opted for \$630 000 which was the total amount which was owing at the end of March. However, this figure included the amount of \$500 000 owing for material, which should be regarded as a trade payable. Thus the correct answer was **A**.

Question 29

In this case the expected net cash flows should have been ignored. The question considered the net present value of the project. Thus the net present value figure of \$5000 should have been deducted from the discounted net cash flows of \$100 000 to give the key **D**.

ACCOUNTING

Paper 9706/33
Multiple Choice (Supplement)

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

Key messages

Candidates need to clearly understand the treatment of provision for unrealised profit in the income statement and statement of financial position of a manufacturing business.

General comments

The mean marks on this paper were 19 with 88% achieving a score of 15 or more. Most of the questions proved straightforward for candidates. The ones which candidates found challenging have been considered here.

Specific questions

Question 3

The treatment of unrealised profit proved challenging. The major difficulty is probably one of terminology with candidates having to decide if the inventory figures given are at transfer price or cost. This was clearly identified with both the inventories in this question. Candidates therefore had to adjust each inventory in the correct manner and find the difference between them to arrive at the key **A**.

Question 8

The key given was **D**. However, a significant number opted for **B**, taking into account the redemption of the debenture loan. The logic in the answer was that if it had been redeemed during the year then it would have appeared in the current liabilities at 1 January and, therefore not formed part of the capital employed.

Question 13

This too was a question of definition: what constitutes profit from operations? Finance income and costs and taxation do not. Loss on the sale of a non-current asset is taken into account after the profit from operations has been calculated. Selling a non-current asset is not part of the normal trading operations of a business. Any loss on disposal should therefore be accounted for after calculating the profit from operations. This resulted in the given key of **D**.

ACCOUNTING

Paper 9706/41
Problem Solving (Supplement)

General comments

Although there were some very good scripts overall performance was not satisfactory.

Comments on specific questions

Section A

Question 1

- (a) The income statement was generally prepared to a poor standard as many candidates did not provide the statement in accordance with International Accounting Standards as required. Very few candidates calculated the closing inventory correctly. Most candidates recorded the expenses as entries on the face of the statement rather than entering a single figure for administrative expenses and distribution costs and showing their workings separately.
- (b) The statement of financial position was generally prepared to a reasonable standard although few provided it in a fully correct format. Common errors were treating cash and cash equivalents incorrectly as an asset, treating the debenture incorrectly as a current liability and the omission of the taxation liability.
- (c) The explanations were generally inadequate although some knowledge of inventory valuation and IAS10 was often demonstrated. Some candidates did not attempt this part of the question.

Question 2

- (a) The partners' capital accounts were generally prepared to a reasonable standard. Very few candidates dealt correctly with the revaluation of the assets of Caslon.
- (b) Most candidates answered this part correctly.
- (c) Performance was variable with well prepared candidates producing very good statements of financial position. Many candidates, however, just used their calculated total net current assets figure from (b) despite the question asking for the statement to be prepared 'in as much detail as possible'.
- (d) The capital accounts were again generally prepared to a reasonable standard. Many candidates did not deduct the salary but nearly all accounted correctly for the drawings.
- (e) There were very few fully correct solutions and although most candidates calculated the goodwill correctly few were then able to formulate a realistic value of the business.
- (f) A limited number of candidates provided the correct explanation but many explained the accounting treatment of goodwill rather than how it had arisen.

Question 3

- (a) Many candidates scored full marks for this part by calculating the correct standard price.
- (b) The variance calculations produced very mixed responses. A limited number of candidates provided fully correct solutions. Some candidates did not calculate a monetary value and submitted

their answer in kilos or hours. Many candidates were unable to calculate the sales price and volume variances and it was common to see the incorrect treatment of adverse and favourable variances throughout the question.

- (c) Most candidates produced reasonable explanations based on their own figures.
- (d) Most candidates deducted the direct costs from sales but did not account correctly for the overheads and nearly all omitted the closing inventory adjustment.
- (e) This was answered to a reasonable standard with some candidates correctly multiplying the profit calculated in (a) by the actual sales to derive the budgeted profit.
- (f) Most candidates made a reasonable attempt at the required reconciliation. A common error was the incorrect inclusion of the sales volume variance in the reconciliation.

ACCOUNTING

Paper 9706/42
Problem Solving
(Supplement)

General Comments

Many candidates produced reasonable answers to each question with some excellent well prepared and logically thought out scripts. **Question 2(a)** on the cash budget was the best answered question with some excellent answers, correct calculations supported with workings. **Question 3** on standard costing was the least well answered question as many candidates appeared unsure of which approach to take to calculate the variances, the reconciliation and the prose answer in **(f)**.

Most candidates seemed familiar with the IAS format required in **question 1**, although a few candidates still used the old terminology. It is important to show all workings even for straight forward calculations. Clear reference to the workings is also needed. If workings are completed on another page these must be included within the booklet. Each question must be clearly identified especially if the questions are completed out of order. The majority of candidates were able to access the paper and attempt most of the questions. There was no evidence of candidates being time pressured.

Comments on Specific Questions

Question 1

This question was generally quite well answered with the correct formats were used.

- (a) (i)** Most candidates presented the corrected manufacturing account quite well. Common errors included not labelling prime cost, omitting carriage inwards or deducting it from purchases of raw materials, subtracting the factory overheads from the prime cost, showing factory profit before the movement of work-in-progress, and not calculating factory profit as 25% of the cost of production. The factory profit was subtracted rather than added by some candidates.
- (ii)** The income statement was not prepared well by many candidates. The vast majority of candidates completely omitted any factory profit or increase in the provision for unrealised profit. Some candidates opened a provision for unrealised profit account in their workings, had appropriate opening and closing balances, and credited the account with the factory profit from the manufacturing account. They then debited it with a balancing figure which they transferred to the income statement. It was important to show workings if this method was used. Most candidates used their own cost of production in the cost of sales calculation, but some simply used the \$1.2 million from the question. Opening and closing inventory of finished goods were sometimes recalculated to include an additional 25%. Carriage inwards was included as part of cost of sales, even if it had already been included in the manufacturing account. Some candidates added \$3000 for carriage inwards to distribution costs rather than deducting it. Very few candidates entered a sub-total for the administrative expenses and just listed all the expenses together.
- (b)** While many candidates used correct IAS1 format and terminology in **part (a)**, some did not use the layout for a statement of financial position.

Many candidates did not identify goodwill as an intangible non-current asset – some even included it in current assets.

Inventory as a category was frequently omitted completely, or only a figure for finished goods was included. Few candidates deducted the provision for unrealised profit, however some did attempt to deduct \$17 000 in relation to the warehouse destroyed. Many candidates however correctly did not adjust for this and provided an additional footnote to that effect.

A number of candidates tried to adjust the cash figure by adding in an additional \$120 000, as an attempt to include the proceeds of the share issue. Share capital was often handled well, although not always shown as one total figure. Clear workings were needed for the calculation of retained earnings. A few candidates debited the bonus issue, not as 200 000 in retained earnings, but as 20 000 in share premium and 180 000 in retained earnings. This was incorrect as the share premium was not yet in existence at the time of the bonus issue. Some entered additional share capital as 120 000 rather than splitting 20 000 to share premium.

Question 2

The majority of candidates produced fair answers to **part (a)** although the amounts for purchases and sales did not show clear workings; **part (b)** was not answered satisfactorily.

- (a) Few candidates complied with the question requirement to work to the nearest thousand dollars. Layouts used to answer this part were generally good. However, in a number of cases individual T accounts or separate tables for each month were prepared. Most candidates distinguished between revenue and expenditure and showed a net cash flow for each month, some did not go on to show a balance c/d or just included the opening balance of \$18 000 either within the revenue section or as a negative figure. Some candidates presented the cash budget as a form of budgeted income statement, using terms such as gross profit and showing the bank balance or other figures as opening and closing inventory.

Many candidates did not show their workings for the sales and purchases figures, which did not enable them to have any clear base for the calculation of the cash in and outflows. Many candidates often went on to double-count sales figures when working out the inflows from credit sales. Occasionally candidates included the actual sales for each month rather than the inflows, or in addition to the inflows. Some candidates had the timing wrong and were one month behind. A common error was to show 60% of the total sales figure as an inflow, rather than 60% of the credit sales figure.

There were similar problems with the purchases figures, Purchase payments were often calculated incorrectly and in some cases one month out of sequence. Many candidates omitted workings.

Other common problems were treating drawings as income and the proceeds of the sale of equipment as an outflow.

- (b) This part was not answered well and many candidates did not attempt this part of the question at all or showed inaccurate workings as an attempt to calculate impairment. Some candidates started with a sales figure of \$49 000 (being the three vehicles) and then applied inventory movements to that. Others prepared a full income statement using figures from (a) including the inventory movement within cost of sales. Those that used the draft profit figure very often included impairment for van 1 in their calculations. Many candidates ignored the vans but calculated an increase from the inventory movements.
- (c) This part of the question was not attempted by many candidates. Only a very small minority of candidates realised that they needed to adjust the capital employed figure based on the revised profit. Some candidates based their capital employed on the value of assets from (b) or even (a). However, the majority of candidates used their revised profit and put over 100 000. Many candidates were unable to calculate a reasonable percentage or one to 1 decimal place. Candidates must remember to state their answers as percentages with a percentage sign.

Question 3

Overall this question was not attempted well.

- (a) Many candidates could not offer a concise definition of standard costing. The majority of candidates made very general comments about it being used for a single product, or for budgeting or for calculating variances without referring to pre-determined costs or explaining what a variance was.
- (b) Although many candidates thought that contribution was a term used in an income statement, few responded with the correct profit. Frequently the adjustment for overheads was entered as 7400 with quantity 800 rather than 815 used. Not many candidates arrived at an amount of \$3930, but a significant number calculated \$4065. The sales figure was frequently correct, but the overheads were either incorrect or omitted completely.
- (c) Common errors included multiplying (rather than adding) the individual variances, presenting calculations which were not reasonable as the resulting numbers were too high in relation to the figures presented in the question or stating variances incorrectly denominated in hours or kilos. Incorrect quantity of 800 (rather than 815) was often used for the material usage variance 140F, and the labour efficiency variance 600A. There were some reversals of Adverse/Favourable or no direction at all given.
- (d) Most candidates seemed to have little problem with this part. Only a small number of candidates calculated the \$6520 correctly. Most candidates calculated a profit of \$6400 being based on a quantity of 800 rather than 815.
- (e) Candidates performance was variable. Candidates who did complete the reconciliation used their own variances correctly, although often did not then arrive at a total actual profit figure. Many a reconciliation started with the profit figure of \$6400 and applied the correct signage from the variances. Many candidates provided an income statement rather than reconciliation. If the latter was prepared, the closing profit was usually the result of their additions rather than the profit from **part (b)**, i.e. it did not reconcile due to the errors in the calculation of variances. Many candidates had no idea how to answer the question and just presented a list of their variances. Those who did reconciliation generally omitted the overhead variance and often included the sales volume variance.
- (f) Many candidates simply offered a list of possible reasons for the variances, listed what corrective measures might be taken, or stated rather unspecific comments about the business performance. Frequently responses were based on an analysis of the variances previously calculated. Some candidates responded with the points more relevant to **(a)**, on what is meant by standard costing. Some answers were just very general comments.

ACCOUNTING

Paper 9706/43
Problem Solving
(Supplement)

General Comments

Many candidates produced reasonable answers to each question with some excellent well prepared and logically thought out responses.

Question 2 (a) on a partnership was the best answered question with some excellent answers, correct calculations and all workings clearly shown. **Question 3** on standard costing was the least well answered question as many candidates appeared unsure of which approach to take to flex the data, the reconciliation and the prose answer in **(e)** and **(f)**. Most candidates seemed familiar with the IAS format required in **question 1**, although a few candidates are still using the old terminology, e.g. debtors and stock.

Key Messages

It is important to show all workings even for straight forward calculations. Clear reference to the workings is also needed. Each question must be clearly identified especially if the questions are completed out of order. The majority of candidates were able to access the paper and attempt most of the question paper. There was no apparent time pressure.

Comments on Specific Questions

Question 1

This question was generally quite well answered with the correct IAS formats being used.

(a) This was generally well answered in the correct format. Although a few candidates still refer to the final profit as net profit. Some candidates included finance costs with the other expenses and so did not show a separate profit from operations. Some candidates did not show the workings for the administrative expenses and put one incorrect figure in the income statement. Although some components of this figure may have been correct, no marks could be awarded if no workings showing these components were given.

(b) Whilst many candidates used correct IAS1 format and terminology in part **(a)**, some still did not use the layout for a statement of financial position. Most candidates did however use the correct terminology for inventory, trade receivables and trade payables. Property, plant and equipment (PPE) was not dealt with well. Often candidates did not show workings. It should be remembered that PPE is shown as a single figure on the statement of financial position supported by workings.

Very few candidates entered a final single value only for PPE. Inventory as a category was frequently omitted completely. Few candidates correctly calculated the trade receivables figure often omitting either the adjustment for \$1743 or \$1040. Clear workings were needed for the calculation of retained earnings, although a few candidates listed both the retained earnings brought forward and the retained earnings for the current year rather than show these as one figure.

(c) Many candidates knew that impairment was the reduction in value if the recoverable amount is below the carrying amount. Some did not clarify what the recoverable or carrying amounts were. Many candidates knew that the value of the non-current asset was reduced in the statement of financial position but omitted the necessary adjustment in the income statement.

(d) Fairly well answered although a few candidates just stated the directors were correct without any supporting data.

- (e) Often the value in use of \$5000 was given but no more.

Question 2

The majority of candidates produced fair answers to the partnership parts **(b)–(e)** although not such good answers were prepared for the statement of financial position of Edrich Limited in part **(f)**.

- (a) The majority of candidates answered this correctly although a few were confused over the number of years needed.
- (b) This part was answered well. The main errors were in the calculation of interest on drawings for each of partners Cowdrey and Dev.
- (c) Candidates must remember to bring the balances down to the next period. A few candidates brought the opening balances down to the wrong side but generally this part of the question was answered well.
- (d) Most candidates remembered to mention that partners would not be liable for the debts of the business as they had limited liability although fewer candidates mentioned that further capital could be raised for expansion by the issue of more shares.
- (e) (i) The realisation account was not well answered and very few candidates correctly calculated the figure for Edrich Limited of \$169 792. Often there were no workings and only a balancing figure was given in the account.
- (e) (ii) The credit side of the capital accounts was usually well answered but few candidates knew how to show the debit entries for the debentures and ordinary shares. Many gave a balancing figure not appreciating that the partnership had closed down and the closing entries were from the bank.
- (e) (iii) This was poorly answered by the majority of candidates or omitted completely. If candidates did not have bank entries in **(ii)** then the only entry they gave in this part was for the opening balance.
- (f) Most candidates correctly recorded the current assets, the non-current assets excluding goodwill, the current liabilities and the ordinary share capital. Many ignored goodwill and the debentures.

Question 3

Overall this question was not well answered especially the prose answer in parts **(e)–(f)**.

- (a) This was often the best answered part of the question although a few candidates did not show the contribution amount, just a profit figure. Variable overheads were often omitted.
- (b) A few candidates did not know how to flex a budget for the new sales of 1200.
- (c) This was better answered than part **(b)** although again often the contribution figure was omitted and only a profit figure was shown.
- (d) The majority of candidates were able to make some attempt at the cost reconciliation. Quite a few could not calculate the variances or treated the direction incorrectly.
- (e) The candidate performance here was variable, as some candidates did not know the reasons for the adverse material usage sub-variance or the adverse labour efficiency sub-variance. Comments were better on the favourable material price and adverse labour rate sub-variances.
- (f) Candidates struggled with the explanations in part **(f)** or did not answer this part at all. Very few commented that actual total direct costs were higher than budgeted or that actual contribution was lower. Some answers were contained very general comments, e.g. stating that the increase in sales units has led to an increase in profit without any further explanation.