Many candidates found this Paper approachable and scored well. The average and median marks were similar at around 17, but the distribution profile was wide-ranging.

Some candidates scored very well, but around 30% of candidates attained 13 marks or less.

Some of the questions proved ‘easy’ to most candidates, with large numbers selecting the correct answer. These questions tested basic areas of the syllabus such as depreciation, control accounts, working capital changes and debtors and creditors collection periods.

Only three questions proved very difficult and there was evidence that many candidates guessed at the answers. In Question 2 many candidates did not realise that only seven months rental was receivable, and opted for a rental of one year. In Question 4 candidates did not realise that the cash discount was to be calculated after deducting the trade discount. And in Question 28, candidates were unclear as to the principles of absorption costing, and in particular, when over and under absorption of overheads arises.

It is not possible for your Examiner to tell from the statistics just how many candidates attempted each question. However it is likely that the lower performing candidates spent too much time on questions involving calculations, and they need to practice more and keep a careful eye on the clock and be prepared to move on if a question proves difficult.
General comments

Full marks were achieved on each question on several occasions, although no one candidate gained full marks on all three. Judging by the Principal Examiner's quota of scripts, high marks were achievable. However, many scored very low marks, especially in Question 3, where the topic seemed to have either been taught well, or not at all. Marks varied greatly between Centres.

Comments on specific questions

Section A

Question 1

(a) This question provided good marks for many candidates, though there seemed to be a problem for some in distinguishing interim from proposed dividends. Profit brought forward should be added to (not subtracted from) the current year’s profit after appropriation in order to calculate net profit for the year. Marks were frequently lost by not stating what a figure related to, e.g. omitting the words “Net profit for the year”.

(b) Good marks were attainable but the main failings were

(i) failing to enter aggregate depreciation (i.e. not adding this year’s to last year’s depreciation);

(ii) not bringing forward the correct dividend figures from (a);

(iii) omitting the term “Working capital”, OR writing it against net assets rather than net current assets;

(iv) not indicating the number of shares.

(c) Some candidates lost marks by not expressing the answers as ratios, or by not taking the answer to 2 decimal places, e.g. 1.05:1 or 0.42:1. It should be noted that “to two decimal places” means that there must be two figures after the decimal point.

Responses to (iii) were rarely sufficiently in depth to warrant full marks.

Question 2

(a) Many achieved good marks but frequent errors were

(i) not writing up the amended receipts and payments account in account format;

(ii) entering bank interest receivable as if it were payable;

(iii) using the closing balance given in the receipts payments account as the opening or closing balance in the bank reconciliation statement;

(iv) reversing the entries in the bank reconciliation statement.
Frequently full marks were gained in the trading account – the main problem was in handling the adjustments to purchases.

The income and expenditure account usually gained high, though rarely full, marks. Bank interest was the main problem, though a large minority did not show a net figure for the annual dance.

A few candidates were able to provide a full answer to the question. Other candidates were only able to think of one reason. Some candidates provided long answers which were not relevant to the point of the question.

**Question 3**

This question tended to be either very well or very badly done – many candidates gained full or nearly full marks but an equal number had very low marks or zero.

Only a small minority failed to realise that closing one production line would mean that its fixed costs would have to be allocated to the other 2 lines.

Most candidates correctly calculated this.

Again, most calculated the break-even point in units correctly, and consequently gained full marks for correctly multiplying this by their answers to (b).

Once more, the “own figure” rule applies and provided the correct fixed costs figure was deducted correctly then the full 6 marks could be acquired.

As (d).
Many candidates scored well. The average mark was 18, but the distribution profile was interesting, indicating a wide spread of marks with roughly equal numbers of candidates in each of the ‘Low Score’ and ‘High Score’ Groups. This would appear to show that many candidates have practiced Multiple Choice Questions (MCQs) in their classes, but an equal number have not.

All MCQs carry one mark each, but some questions are lengthier or more difficult than others. The obvious strategy is for a candidate to attempt, first the ‘easier’ questions, followed by the remaining questions towards the end of the examination hour.

The main features of the ‘easy’ questions is that they have been set in previous examinations, or are clones of such questions, or cover core areas of the syllabus, in other words there are plenty of such questions to practice on. Thus areas such as goodwill calculations on the acquisition of a business, price-earnings ratios and cash budgets all provide examples of straightforward questions.

**Question** numbers 3, 4 and 5 which focus on raising and redemption of capital and the interaction with the share premium account and the capital redemption reserve fund were well answered. Except in **Question 11**, there was little evidence of guessing and time did not seem to be a significant factor. However, candidates found four questions especially difficult.

**Question 2**

In this question candidates did not divide the loan repayment between ‘financing’ and the ‘cost of financing in the cash flow statement.'
Question 10
Candidates did not distinguish between items likely to be found in the notes to the profit and loss account and items which would be shown in the profit and loss account itself.

Question 11
This question illustrated that few candidates had knowledge of the statement of recognised gains and losses.

Question 20
This question showed a poor knowledge of which are the relevant costs in decision making.
General comments

The standard of candidates' work continues to improve. There were many excellent scripts and some very high scores. There were very few candidates who seemed to be totally overwhelmed by the magnitude of the task.

There was no evidence to show that candidates had run out of time.

More candidates are showing workings to support the final figures that they use in their answer. This is very pleasing for the marking Examiner as it makes his/her work much easier and it often helps the Examiner to award part marks for a not totally correct answer. It also often helps the candidate to trace figures when they check their answer before submitting their paper near the end of the time when papers have to be handed over to the invigilator.

Layouts in the main were good although the less good candidates often used their own version of a standard layout.

Some candidates lost marks for incorrect labelling or not labelling parts of their answer. It is important to identify key parts of financial statements. Where appropriate, terms such as "gross profit"; operating profit"; "cash inflow/outflow before financing" etc. should be used.

Candidates should be discouraged from using their own abbreviations in their answers. GP and NP are not acceptable substitutes for gross profit and net profit. It is also not acceptable to use arrows to indicate an increase or decrease in items between time periods. Candidates should be encouraged to use the full term in their answers.

Most scripts were tidy and well thought out but there was still a small minority of candidates' work which was very untidy and very difficult to read. Candidates should be encouraged to neatly cross out any words or figures that they wish to change and neatly write their amended figure or word alongside or above the original incorrect response. If a response cannot be read then appropriate marks cannot be awarded. Much poorly presented work was not only difficult to mark but proved to be difficult for the candidate to reread. Thus figures were sometimes carried forward incorrectly.

Candidates should be careful when forming their figures. It was often difficult to determine whether the candidate had written 0 or 6, also 9, 7 and 4. There were a number of occasions where a candidate calculated workings accurately to a figure ending in 0 only to transfer the figure to another section of the answer as a 6.

Question 1

Most candidates produced good answers.

(a) In the main well answered and, pleasingly, many candidates were able to score all 12 marks. A significant number of candidates dropped the mark for operating profit either because the label was omitted or because interest had been included as an operating expense. Depreciation was often miscalculated or the accumulated depreciation figure was used in place of the charge for the year.

The interest charge for the year was given in the question as $10 000. Many candidates incorrectly used $8800. It was felt that this was such a common error that either figure could be accepted. Many candidates included the retained profits of $450 000 in their appropriation account and this was clearly accepted. A significant number of candidates only included one or other of the dividend payments.
(b) In the main the balance sheet was well prepared and the layouts were generally good. The net book value of the fixed assets was accurately calculated but some candidates either used only the charge for 2006 or the accumulated provision given in the trial balance. The net current assets were treated correctly although the less good candidate did not include the liability to pay tax or the proposed dividend. Some candidates either included the debenture as a short term creditor, or included it among the share capital and reserves. If candidates are used to including debentures in the lower part of the balance sheet they must make it clear, by using the usual label, that they appreciate that this is a loan and not share capital or a reserve. Most candidates scored both marks for the two components of “share capital and reserves”. The less good candidate often only included $450,000 or their own figure from their profit and loss appropriation account. Some candidates showed the profit and loss account balance as two figures, this was not accepted.

(c) There were many good examples of cash flow statements, however in the main the cash flow statement was less well done than the first two parts of the question. Very few candidates were unable to make any attempt at the statement.

Layouts were sometimes rather dubious and some of the actual cash flows were incorrect or miscalculated.

The reconciliation statement was generally well done although many candidates were confused by the direction of the adjustments. The most common of these errors was to deduct the annual depreciation charge.

Less good candidates made basic errors, in the main using the figures used in the profit and loss account and/or balance sheet rather than the cash flows that had occurred during the year.

Interest paid often included both $8800 and $10,000. Many candidates used the current year’s charge for taxation ($204,000) rather than the correct $176,000. Some candidates used only one of the correct dividend payments.

Most candidates scored the mark allocated to the receipts from the ordinary share issue. Only the better candidates scored the mark for the important subtotal of “net cash outflow before financing”.

(d) This part was reasonably well answered with many candidates scoring all 4 marks. The most common error was to confuse a cash flow statement with a cash budget.

Question 2

The responses to this question were very varied. There were some very good perceptive, well thought out answers.

(a) Generally this was rather poorly answered. Most candidates scored the mark allocated to Anjni’s potential salary. Only the better candidates scored further marks.

Some candidates made a very good attempt at calculating future incomes. However, most candidates included the purchase consideration and the cash and the shares that Anjni was to receive as well as her salary in their calculation.

Surprisingly, a significant number of candidates included Anjni’s profit as part of their calculation.

The concept of using any part of the purchase consideration to provide an income in the future was disregarded by many candidates.
There were some very sound pieces of advice for Anjni and these were backed up with evidence from part (a). Candidates in the main were able to offer the “correct” advice based on their own figures from (a).

The less good candidates did not develop their responses by giving any details either from the question or their own calculations.

Some compared their own figures to Anjni’s drawings rather than her profits. A significant number of candidates ignored the calculations in (a) and instead made generalised comments on the benefits and losses of share ownership.

Many comments made were extensions of part (b) and either further developed or repeated the financial benefits already outlined.

However, most candidates did mention loss of control and/or change in ownership. Other candidates identified concern for existing customers; what might happen to her staff; and loss of what might be a family business. All good points that scored varying degrees of marks depending on the levels of development of the point(s).

The balance sheet of Chin Ltd was in the main very well prepared however, only a few candidates scored all 22 marks. Many candidates scored 20 marks or more.

Only the better candidates correctly calculated the re-valued premises at $250 000 and the correct share capital figure and share premium after the bonus issue.

Good candidates correctly identified and calculated the goodwill at $83 750. Most candidates scored full marks for fixtures, current assets and short term creditors. Less good candidates included a bank balance as a current asset. Also, many candidates included the bank overdraft as a negative current asset, this was not acceptable.

A significant number of candidates included Anjni’s profit and drawings as part of Chin’s balance sheet.

This question was a good example of where candidates could pick up part marks for incorrect entries in the balance sheet by showing detailed workings.

Question 3

There was a great range in the quality of responses to this question. Marks ranged from the maximum down to those candidates who clearly had not revised this topic at all.

There were many pleasing answers to this part of the question.

Many candidates were able to score all 21 marks allocated. However, a significant number of candidates appeared to be unaware of the approach to a problem to work out an optimum production plan. Often these candidates ignored the limiting factor.

In the main a disappointing set of answers. Only a very few candidates produced a good marginal cost statement. Those that did generally scored high marks. The most common error was to produce a profit statement for each of the cameras, often very inaccurately. Many candidates included the CCTV cameras even though they had suggested no production of this product in part (a). The other major error was to disregard the fixed costs as being fixed on the CCTV cameras and the cine cameras and to treat them as variable costs.

There were a good number of sound answers (generally based on the candidates own figures) although, only a handful of candidates used the “contribution to sales ratio” method. Most candidates found the break even point for each individual camera by dividing total fixed costs by the contribution per camera and then multiplying their answer by the selling price of each camera and totalling their answers. This rather long method was the main method used but, invariably the answer was inaccurate mainly because the fixed costs for the CCTV cameras were omitted.

Answers were in the main disappointing. Many candidates misread the question and discussed the original pattern of production based on maximum demand for each type of product.
Those candidates who addressed the question generally identified that the “new” production plan would not allow maximisation of profits based on original demand. Some mentioned the effect that non-production of CCTV cameras might have on other products. Only a very few candidates considered the other resources i.e. labour and capital equipment might go to waste.