This booklet contains reports written by Examiners on the work of candidates in certain papers. Its contents are primarily for the information of the subject teachers concerned.
# ACCOUNTING

## GCE Advanced Level and GCE Advanced Subsidiary Level

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### General comments

5848 candidates took this paper (November 2003: 5937). The paper consisted of thirty items. The mean score was 16.47 (November 2003: 16.1). The standard deviation was 5.6 (November 2003: 5.3).

The number of candidates who took the paper in this diet was similar to that who took it in November 2003 (a decrease of only 89) and the results were comparable for both diets.

All items were within the syllabus. One item (Item 5) was too difficult and no items were too easy.

### Comments on specific items

#### Item 5

Only 21% of candidates correctly selected option B; this percentage was below the design level of 25%. 33% selected A, and a similar percentage selected C, revealing that two thirds of the candidates did not understand that bad debts are written off as they arise and do not comprise part of the year-end debtors; this in spite of the item clearly stating that the bad debts had been written off during the year. The bad debts should not have been deducted from the trade debtors at 31 December 2003 before the required provision was calculated.

21% failed to deduct the provision of $1800 brought forward from the previous year from the provision required for 2004, and selected option D.

There is a clear indication that candidates could benefit from increased attention being given to the topic of bad debts and doubtful debt provisions.
Item 8

35% of candidates correctly selected A. 36% reversed the adjustments for uncleared lodgements and unpresented cheques and selected C. This may have been due to examination room tension, but is very likely to be the failure of candidates to know how to prepare bank reconciliations.

This is another topic which could repay more attention being given to it before the examination.

Item 11

Over half of the candidates were not acquainted with the provisions of the Partnership Act 1890. This is an important topic, ignorance of which could have serious consequences in the written Papers 3 and 4. Candidates should have a secure grasp of partners’ entitlements in the absence of a partnership agreement.

Item 14

The correct treatment of goods on sale or return is an important topic. The main errors in the responses to this item were: failure by 27% of candidates to convert mark up of 25% into a margin of 20% resulting in the selection of option B, and failure by 20% of candidates to recognise that goods sent on sale or return should not be treated as realised sales, resulting in the selection of option A.

Paper 9706/02
Structured Questions

General comments

As always there was a considerable variation between Centres, with some producing excellent results whilst others seemed not to have covered the whole syllabus. The paper appeared fair and most candidates scored some marks. There was no problem with time, as almost all candidates were able to complete the paper provided they had the knowledge.

Comments on specific questions

Question 1

This question in part tested the understanding of the principles of double-entry book-keeping, and although most candidates understood these principles, only a few scored high marks here.

(a) The great majority of candidates appeared to know how to complete a bank account, but very few completed this one correctly. Many included drawings and rent, both of which had been paid from cash sales and therefore had no place in this account. From the information given it should have been understood that the one item missing from the account was cash received for sales, which was the balancing figure. Frequently, depreciation was entered as an expense, and the petty cash float entered on the debit side.

(b) The total sales figure should have been the addition of the sales figure from the bank account plus drawings and rent for the year. However this was commonly calculated – wrongly – from the purchases figure.

(c) This should have used both the purchases figure and the cost of sales figure (calculated by dividing the sales figure from (b) by 1.75). Most candidates gained some marks here with a minority gaining the full quota.

(d) Candidates, all of whom should have been able to prepare a simple trading and profit and loss account, seemed often unsure as to which items should be entered, and a disappointing number included the motor car, drawings and the petty cash float, not one of which is an expense.

(e) Very few candidates seemed to have a grasp of the requirements here, and almost all assumed that size was the main difference between a limited liability company and a partnership or sole trader, when in fact many limited liability companies are small and very cheap to set up. And it was not sufficient to state that “limited liability companies have limited liability and sole traders/partnerships do not” – some explanation was expected.
Question 2

Most candidates completed this question successfully, with many gaining full or very high marks.

(a) Many gained full marks in this part – occasionally extraneous items such as purchases would appear but these were in the minority. The only common fault was a failure to bring down the closing balance.

(b)(i) This was not quite so well attempted as (a), with some candidates providing a list of figures to be added or subtracted, despite the requirement for an account. Candidates often had some difficulty in distinguishing between items which affect control accounts and those which solely affect personal accounts. Most gained at least half marks here, whilst full marks were not uncommon.

(ii) Again, a number of correct answers appeared here, though several candidates failed to attempt this section.

(c) Generally well done, though it should be noted that control accounts are a means of locating errors rather than correcting them.

Question 3

A wide variety of marks gained here – some candidates made little or no attempt suggesting that this topic had not been covered at all. A minority gave very good answers.

(a) Generally candidates successfully calculated the break-even point in units, but instead of simply multiplying that answer by the unit selling price of the item, at least half calculated the value by dividing the fixed cost by the contribution to sales ratio – thereby giving a comparatively inaccurate result. In fairness, these answers were accepted but were not ideal, and the accuracy depended on the number of decimal places to which the contribution to sales ratio was taken.

(b) Some good answers here, but many ignored option 1 and calculated the profit for options 2 and 3 only. Some calculated the profit for one option only at each level, and not necessarily the most profitable one.

(c) Only a few candidates attempted this part, but most of those arrived at the correct answer.

(d) As for (c).

(e) A wide variety of assessments appeared, many with no basis whatsoever, but a few did agree that option 1 was best at low production levels, option 3 at high levels, and option 2 best ignored. Other relevant answers were accepted.

(f) A wide variety of ideas appeared here, and too many candidates either had no understanding of the question, or did not relate each limitation to the previous assumption.
General comments

5030 candidates took this paper (November 2003: 5323). The paper consisted of thirty items. The mean score was 15.45 (November 2003: 12.66). The standard deviation was 5.3 (November 2003: 4.58).

The number of candidates who took the paper in this diet was similar to that who took it in November 2003 (a decrease of 293). The mean score improved by three marks and the standard deviation indicates a higher level of discrimination.

All items were within the syllabus.

No items were too easy or too difficult as all the responses fell within the upper and lower design limits.

Comments on specific items

Item 2

Only 35% of candidates calculated the cash inflow correctly as option D. 26% opted for A, 20% for B and 19% for C. This is an important topic, especially when it is set in Paper 4 as many marks are at stake in reconciling the operating profit with cash flow. It deserves special attention in preparation for the examination.

Item 7

47% of candidates correctly calculated the shareholders’ fund following acquisition as $190 000 (option C). 22% failed to recognise that the issue of 30 000 shares at a premium of 100% in settlement of the purchase price increased the balance on the Share Premium account to $50 000 and selected option A.
Item 11

Only 42% of candidates selected option B. It was somewhat disappointing to find that as many as 37% still think there is a connection between the depreciated values of fixed assets and their market values.

Item 15

41% of candidates correctly calculated the PER as 6.25 (key B). The calculation is as follows:

\[ \frac{10000}{0.04} \div 40000 \]

Item 18

45% of candidates correctly chose key D, which meant that more than half of the candidates had quite erroneous ideas about the effect of an issue of bonus shares. Options A, B, and C must appear to be manifestly wrong if bonus shares are properly understood.

Item 20

Only 36% of candidates recognised that general reserves may, if thought prudent, be used to pay cash dividends to shareholders. The key was B. 38% did not recognise that the Share Premium account and the Revaluation Reserve are capital reserves and may not be used to pay dividends. More emphasis should be placed on this when candidates are taught about capital and revenue reserves.

Item 27

51% of candidates chose option A, presumably because they did not notice the negative stem. ‘Not’ should probably have been in bold print, but that does not altogether excuse candidates from reading items carefully.

Item 30

29% chose option A because the capital required exactly equalled the available funds. They failed to realise that projects 3 and 4 combined would result in a higher combined NPV for the same investment.

General comments

Generally, there seemed to be an improvement in the candidates’ ability to answer the questions set. This was indicated by an improvement in the mean mark for the paper.

Candidates in the main seemed to be well prepared for the paper. There did seem to be more candidates scoring higher marks and there were only a few candidates who seemed to find the paper too difficult.

There was a good spread of marks. No questions seemed to be less well attempted than others. A few candidates were unable to answer one or more questions and only a few candidates produced inappropriate answers.

It was pleasing to note that more candidates are showing detailed workings. This benefits candidates in that they are often able to score part marks if their final answer is incorrect. Some candidates produced journal entries as workings; this is very impressive provided that the candidate does not take too much time in writing the entries in this format (some candidates have to use “T” accounts to help with the writing of the journal), as no extra marks are available for workings in the form of a journal – “T” accounts are perfectly acceptable as workings. Interestingly, those candidates who did use journal entries often scored higher marks for the question, and this may indicate that journal entries are used by the more able candidates.
Layouts and presentational skills continue to improve, and this makes candidates’ work much easier to follow from a marker’s point of view.

However, many candidates use abbreviations that are unacceptable e.g. π (pi) for profit or arrows to indicate increases↑ and decreases↓ etc. Candidates should be discouraged in this practice. There is evidence that cell phone text language is starting to be used; this also should be discouraged.

Numerical sections still seem to be preferred by most candidates and this is reflected by the higher marks scored in these sections of the paper. Generally, lower marks are scored for the discursive elements. Candidates could improve their marks in the written sections by developing and explaining to the Examiner the initial points that they identify; if they do this, generally, more marks will be scored.

**Comments on specific questions**

**Question 1**

(a) Most candidates were unable to calculate the correct bank overdraft; surprisingly, many calculated the amount correctly but included it as a negative current asset.

The majority of candidates were able to treat the share issue correctly. They credited the ordinary share capital account with $30,000 and $15,000 to the share premium account. It was pleasing to note that only the weakest candidates showed the $30,000 new ordinary shares separately from the original $80,000 ordinary shares.

Many candidates were able to calculate the debenture redemption reserve correctly, although many described the reserve incorrectly. A significant number of candidates credited the amount to the profit and loss account balance.

Very few candidates were able to calculate the retained profit figure accurately. A substantial number were able to correctly calculate and treat the redemption premium correctly, debiting $6000 to the retained profits. Few candidates debited the retained earnings with both the transfer to debenture redemption reserve $40,000 plus $2000 premium on redemption. The majority of candidates were unable to correctly treat the premium on redemption of debentures and the premium on redemption of preference shares. A significant number of candidates were unable to calculate the correct total amount to be repaid to debenture holders.

Surprisingly, a significant number of candidates prepared a balance sheet showing balances on the debenture account and/or the preference shares account.

(b) It was pleasing to note that all but a small number of candidates produced a cash budget in columnar format. Although no penalty was incurred for separate monthly cash budgets, the candidates who used this layout penalised themselves by taking longer to produce their answer.

Most candidates were able to calculate the monthly cash sales figure accurately; monthly credit sales proved to be more problematic. Many candidates ignored the debtors outstanding at 30 September which were due to be paid in October – as a result, some candidates placed subsequent forecast credit sales in the incorrect months.

Nearly all candidates treated the wages, overheads, payment of the ordinary dividend and the purchase of the machine correctly.

The calculation of the amounts to be paid each month to creditors proved to be the most difficult part of the question. Many candidates ignored the payment completely, many placed each payment in the incorrect month, and many were unable to make the calculation accurately.

A significant number of candidates made a list of forecast receipts and a list of forecast payments but failed to balance each month and carry the appropriate balances forward – clearly, these candidates seemed to be unaware of the purpose of preparing a cash budget.

About half of the candidates calculated either a gross profit and/or a net profit and included these figures in their cash budget.

A significant number of candidates started their budget with an opening balance of $40,000, rather than with their own figure from their balance sheet at 30 September.
Most candidates were able to identify four actions that the directors could take to avoid the overdraft limit being exceeded. However, less good candidates failed to develop their points to include the effect that each action identified would have on the company's bank balance. The importance of the marks that are awarded for answers that are fully developed should be stressed to all candidates.

**Question 2**

Generally, most candidates had been well prepared in the production of a cash flow statement and were able to make a reasonable attempt at parts (a) to (d). However, less good candidates placed components in the wrong part of the answer.

**a)** Very few candidates were able to calculate the operating profit correctly. Only a small proportion of candidates correctly calculated the debenture interest paid, indeed, many did not include it in their calculation of operating profit; similarly, the dividend adjustment posed a problem to many candidates.

Some candidates used a double entry method of calculating the operating profit, which proved very effective in most instances.

**b)** The reconciliation of operating profit to the net cash flow from operating activities was, in the main, well done, and only a small number of candidates made errors – these were mainly in calculating the profit on sales of plant and machinery and the loss on sales of motor vehicles. A significant number of candidates made the calculation correctly but then used the incorrect description i.e. describing the profit as a loss and vice versa. A few candidates failed to make the correct adjustment for depreciation of fixed assets. Nearly all candidates were able to calculate the movements in working capital components accurately.

**c)** The cash flow statement was, in the main, well presented and candidates scored well. Once again, the less able candidates made errors involving the direction of an item – in the main, this must be due to carelessness. A significant number of candidates arrived at the correct increase in cash of $16 000. It was pleasing to note that generally items in the statement were correctly classified.

**d)** Most candidates scored three marks for the statement showing the change in bank balances over the year. However, a significant number of candidates produced a detailed statement using all the figures previously calculated and used in the cash flow statement. In most cases, errors were made but this detailed statement caused the candidate to use valuable time – the opportunity cost of which is high.

**e)** Most candidates were able to identify a couple of factors that are important to shareholders, but in most cases the points identified lacked meaningful development. Most candidates recognised that cash flow statements deal with the liquidity of the business. Many candidates still identify information from a cash flow statement that would be better and more easily gleaned from either the profit and loss account and/or the balance sheet.

**f)** The explanation of the differences between a cash flow statement and a cash budget was less well done. Most candidates identified that cash flow statements were based on historical information while cash budgets were forecasts. Better candidates identified the external use of cash flow statements and internal use of cash budgets. Often the responses were unclear and focused on very dubious differences. Many candidates seemed to believe that cash budgets recorded only revenue expenditure and revenue receipts.
Question 3

There were many good answers to this question. Most candidates scored well in all three parts. Layouts were logical and in the main were presented neatly.

(a) Many correct answers were seen in calculating the NPV at 8%. However, a substantial number of candidates used $125 000; $90 000; $60 000 and $19 000 as the annual cash flow. The most common error was to ignore the residual value of the machine in year five.

Candidates who were able to give a good answer to (i) were able to score both marks in part (ii).

IRR was, in the main, calculated accurately but there are still a significant number of candidates who believe that a positive and a negative NPV is necessary to complete the calculation.

Only a few candidates did not use the tables provided, preferring to use their own calculation. Whilst this may be useful as a revision aid, extra calculations undertaken by candidates does not score bonus marks and invariably takes up much time that could be profitably spent on other parts of the paper. Candidates should be told to use the tables given.

A few candidates used graphical means to determine the IRR; this should also be discouraged since, due to the limited time available in the examination room, the results are usually inaccurate.

ARR was, in the main, accurately calculated, although many candidates included the residual value of the machine as part of the “profits”. Surprisingly, many candidates added five years profits together and then divided the result by five.

Due to the fact that there is debate over the calculation of the average value of the investment, the following three answers were acceptable for the denominator in the formula:

- $77 500 (the correct denominator)
- $47 500 was also accepted
- $62 500 was also accepted

(b) Although there were many good answers, there were very few totally correct answers to this part. The main error was the inclusion of sales of $90 000 in the manufacturing account. This is not standard practice and answers that started with this figure were treated as a trading account with resulting penalties. Better candidates did not include sales in the manufacturing account and they scored higher marks.

Most errors occurred in the profit and loss account where the calculation of the administrative expenses proved to be difficult for many candidates.

(c) There were many totally correct answers to this part. However, some candidates threw away marks by not including the “$” sign and by not indicating whether the sub variances were adverse or favourable. It is essential that candidates use the words “adverse” or “favourable” to indicate the direction of the variance.

Some candidates calculated the variance per unit – this is not an acceptable practice.