

# ACCOUNTING

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<p><b>Paper 0452/01</b> <b>Multiple Choice</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	21	<b>B</b>
2	<b>D</b>	22	<b>B</b>
3	<b>B</b>	23	<b>D</b>
4	<b>B</b>	24	<b>C</b>
5	<b>A</b>	25	<b>D</b>
6	<b>B</b>	26	<b>A</b>
7	<b>C</b>	27	<b>B</b>
8	<b>C</b>	28	<b>D</b>
9	<b>A</b>	29	<b>C</b>
10	<b>A</b>	30	<b>C</b>
11	<b>D</b>	31	<b>A</b>
12	<b>C</b>	32	<b>C</b>
13	<b>A</b>	33	<b>D</b>
14	<b>C</b>	34	<b>D</b>
15	<b>B</b>	35	<b>A</b>
16	<b>B</b>	36	<b>D</b>
17	<b>C</b>	37	<b>A</b>
18	<b>D</b>	38	<b>B</b>
19	<b>B</b>	39	<b>B</b>
20	<b>B</b>	40	<b>B</b>

## General comments

This was the thirteenth sitting of this Paper.

There were 3557 candidates (compared to 3287 in June 2006). The mean mark was 25.8 out of 40 (compared to 29.5 in June 2006). The standard deviation was 7.3 (compared to 7.2 in June 2006).

Judged against accessibility of 60-90% one item was regarded as slightly easy, four items were regarded as slightly difficult and eleven items were regarded as too difficult.

All the items were within the Core Syllabus.

### **Comments on specific items**

#### **Item 8**

This item was based on the principle of realisation. As this item has been used on a previous paper, it was surprising that only 39% correctly selected the key, C. Profit is regarded as being earned when the legal title passes to the buyer: in this situation this was when the goods were invoiced.

#### **Items 11, 12, 13, 14, and 16**

All these items come into **Section 3** of the syllabus, the sources and recording of data.

**Item 11** concerned the double entry for payments from petty cash. 74% realised that the ledger entries must be debits. However, only 41% appreciated that payments to creditors must be debited to the individual creditors' accounts.

In **Item 12** 57% correctly selected the key, C. It was disappointing to find that 24% believed that the amount entered in the sales journal represented the list price less both the trade discount and the cash discount.

54% selected the key in **Item 13**. The selection of the other options indicates a degree of guesswork. Candidates should be aware that journal entries are not required for items which would be recorded in one of the other books of prime entry.

In **Item 14** it was disappointing to find that 34% did not appreciate that a cash payment for rent did not require an entry in a personal account.

In **Item 16**, 82% correctly calculated the balance on the debtor's account as \$300, but only 54% correctly identified that this represented a debit balance brought down.

#### **Items 18 and 23**

The key was selected by 57% and 59% respectively. In each case, however, a substantial degree of guesswork is indicated by the selection of the other options.

#### **Item 27**

It was disappointing that 36% selected option D, which ignored the residual value in the calculation of the depreciation.

#### **Item 30**

Half of the candidates correctly selected C. 39% failed to appreciate that as the bad debt had been written off during the financial year it would already have been removed from the amount owing by debtors.

#### **Item 32**

47% selected the key, C. 35% selected option A, ignoring the fact that interest charged on partners' drawings increases the distributable profit. The amount credited to Beth's current account would be 50% of \$110 000.

#### **Items 33 and 34**

Both these items were on the topic of incomplete records.

The statistics for **Item 33** are very similar to those produced when this item was asked on a previous paper. Once again there is evidence of a substantial degree of guesswork. It was expected that candidates would know that the increase in the capital plus any drawings equalled the profit for the year.

In **Item 34** the key was correctly identified by 41%. It was disappointing that 34% selected option B, presumably the result of incorrectly adjusting for discount allowed.

**Item 38**

The key, B, was selected by 45%, who correctly calculated the net profit, \$15 000, as a percentage of \$88 000 (fixed assets + current assets – current liabilities). 32% incorrectly included the long term loan with the current liabilities.

**Item 40**

It was extremely disappointing that only 26% selected the key, B. The difference between the gross profit as a percentage of sales and the net profit as a percentage of sales represents the expenses as a percentage of the sales. This was 20% in 2005 and 14% in 2006 which indicates that the expenses were controlled better in 2006.

# ACCOUNTING

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<p><b>Paper 0452/02</b></p>
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<p><b>Paper 2</b></p>
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## General comments

Candidates generally performed well on specific questions, with many good scripts and evidence that Centres had worked hard to prepare their candidates. The performance on other questions was much less satisfactory and revealed continuing areas of weakness, which have been reported on previous occasions, and Centres should pay attention to these.

Most of the short questions in **Question 1** were well answered but two specific parts gave difficulty to many candidates. These were where candidates were required to explain a concept in their own words. In **Question 2(a)** most candidates earned all the marks, the calculation in **(b)** was satisfactorily answered, but **(c)** produced a wide variety of answers. **Question 3(a)** on double entry bookkeeping was very poorly answered but **(b)** was well attempted. Again, the double entry bookkeeping in **Question 4(a)** was very poorly answered but candidates gained marks in **(b)** and **(c)**. **Question 5(a)** and **(b)** were well answered with many candidates gaining all the available marks for these parts, but performance on **(c)** and **(d)** was weaker.

Most candidates completed all the questions and there did not seem to be evidence of time pressure. There was space on the question paper for candidates to show their workings, which were specifically requested in four out of the five questions. It is not possible to give credit to candidates who do not show their workings and it is recommended that Centres always encourage their candidates to show how they worked out the answers to numerical questions.

## Comments on specific questions

### **Question 1**

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus and was quite well answered although candidates had difficulty with **(a)** and **(d)**.

- (a)** The correct answer was a statement (of account) but a surprising number incorrectly answered with invoice or debit note.
- (b)** Many candidates correctly identified a prepaid expense, such as rent, water charges, insurance, or other utilities paid or charged in advance. Generic statements such as "bills paid in advance" were not sufficient for the mark.
- (c)** The machinery account is to be found in the nominal or general ledger (not the personal or private ledger).
- (d)** Many candidates had difficulty explaining that a trial balance is a list of the balances on the nominal (or general) ledger at a particular date. Many candidates also explained why a trial balance was useful which was not required.
- (e)** Most candidates correctly gave the (profit and loss) appropriation account as the correct answer.
- (f)** Adjustments to a bank reconciliation statement would be outstanding cheques awaiting deposit, cheques deposited but not yet credited, and cheques written and sent out but not yet paid. Candidates who answered with items found in updating the cash book such as direct debits, bank interest and charges, dishonoured cheques and bank or cash book errors also earned the available marks.

- (g) Most candidates were able to give an example of an error not affecting the trial balance, from the list of errors of omission, commission, principle, original entry, complete reversal or compensating errors.
- (h) Many candidates did well on this question, but some thought replacing broken glass was capital and' as in previous questions of this type' there was some evidence of random answers. The correct answers are shown in the table.

	Capital expenditure	Revenue expenditure
Purchase of retail shop	√	
Replace broken glass in shop window		√
Purchase of cash register for shop	√	
Advertising goods for sale in the shop		√

- (i) The question specifically asked candidates to show their workings to calculate the percentage of net profit to sales and to give answers to two decimal places. Marks were available for each element in the calculation. Many candidates just gave figures – often without any explanation, so that it was not possible to see from where they had been derived and not possible to award marks, even if the figures might have been correct.

The percentage of net profit to sales is found by the formula  $\text{Net profit} / \text{Sales} \times 100\%$

In this case  $\text{Net profit} = \text{Gross profit} (\$32\,000) \text{ less expenses } (\$20\,000) = \$12\,000$ , and sales for the month of October were  $\$80\,000$ .

The percentage of net profit to sales was therefore  $\$12\,000 / \$80\,000 = 15.00\%$ .

## Question 2

This question required candidates to enter some missing words and figures in a Trading and Profit and Loss Account, to calculate the rate of stock turnover from the account, and then to give an example of a business with a high, and a low, rate of stock turnover.

**Part (a)** was done well and many candidates obtained all the available marks. Some candidates had difficulty with giving the date of the opening stock, and some incorrectly entered carriage **outwards** instead of **inwards**. A few weak candidates incorrectly added the cost of goods sold to sales and added expenses to the gross profit and lost marks.

The correct entries in the Trading and Profit and Loss Account are:

- (i) \$5 000
- (ii) 1 April 2006
- (iii) \$80 000
- (iv) Inwards
- (v) \$37 000
- (vi) \$5 600
- (vii) Net profit
- (viii) \$27 800

**Part (b)** was also well answered with most candidates knowing the correct formula for calculating the rate of stock turnover. Some variations were found such as dividing average stock into sales, and some used closing stock instead of average stock but these were probably caused by difficulty in remembering the correct formula.

The correct calculation is:

$$\begin{aligned} \text{Rate of stock turnover} &= \text{cost of sales / average stock} \\ &= 88\,000 / (42\,000 + 36\,000)/2 \\ &= 2.26 \text{ times} \end{aligned}$$

Answers expressed as 161 days were accepted and earned the available marks.

**Part (c)** asked candidates to give an example of a business with a high, and a low, rate of stock turnover. Answers should therefore have included types of business, and not examples of whether they had large or small amounts of stock, high or low cost of goods sold, or other measures. Many candidates showed a good understanding of the principles involved and gave acceptable answers.

Examples of businesses with a high rate of stock turnover would have included a food store, newsagent, petrol station, or clothing store.

Examples of businesses with a low rate of stock turnover would include a car dealer, a furniture store, or a jewellery shop

### Question 3

This question proved difficult to all but the best prepared candidates, but was testing fundamental principles of double entry bookkeeping.

**Part (a)** required candidates to write up ledger accounts in a trader's ledger for a month of trading from information in the cash book and additional items listed. The information given included a balance brought forward, items of cash and bank receipts and payments, an accrual and a prepayment. The question specifically required the calculation of amounts transferred to the trading or profit and loss account and of balances carried forward to the following month.

Candidates' performance was poor. Some candidates made the correct entries in the ledger accounts, but many had difficulty with the prepayment and the accrual and their effect on the transfer to the profit and loss account. Many candidates thought that if \$900 rent was payable quarterly in advance, the amount charged to the profit and loss account for one month was \$225 instead of \$300.

Candidates made a variety of errors in attempting this question. Some reversed the entries entirely, others omitted details such as the dates, or the details, and lost marks. Others again became confused with the prepayment and the accrual and few correctly calculated the balance of rent carried forward or the transfer to profit and loss for electricity.

Overall a disappointing result.

The correct entries to the ledger accounts were as follows:

Sales			
2007	\$	2007	\$
30 April Trading account (or Profit and loss account)	500	3 April Cash (Sales)	500
Ahmed			
2007	\$	2007	\$
1 April Balance brought down (or Profit and loss account)	2 850	12 April Bank	1 200
		29 April Bank	650
		30 April Balance carried down	1 000
	2 850		2 850
1 May Balance brought down	1 000		

## Rent

2007		2007	
	\$		\$
1 April Bank	900	30 April Profit and loss account	300
	<u>900</u>	30 April Balance carried down	<u>600</u>
1 May Balance brought down	600		<u>900</u>

## Electricity

2007		2007	
	\$		\$
6 April Bank	120	30 April Profit and loss account	180
30 April Balance carried down	<u>60</u>		<u>180</u>
	<u>180</u>	1 May Balance brought down	60

## Wages

2007		2007	
	\$		\$
29 April Cash	<u>700</u>	30 April Profit and loss account	<u>700</u>

## Drawings

2007		2007	
	\$		\$
21 April Cash	<u>800</u>	30 April Capital (or Balance carried down)	<u>800</u>

**Part (b)** asked candidates to suggest two ways in which a debtor may be encouraged to pay his outstanding account more quickly. Apart from some candidates who became confused with working capital and suggested taking loans or selling fixed assets, which was not relevant to the question, most candidates made sensible suggestions.

Suitable suggestions would have included sending statement of accounts regularly, offering cash discount for early settlement (*not trade discount, as some candidates proposed*), charging interest on overdue amounts, referring to specialist debt collectors, taking legal proceedings, and refusing further supplies or business until settlement.

**Question 4**

This question was very poorly answered and it appears that many candidates, and possibly some Centres, continue to find the subject of providing for depreciation of fixed assets very difficult. Similar questions have been set in earlier papers and many attempts at answers showed that candidates find remembering the necessary formulas or rules difficult, and have very little confidence about making the correct entries in the provision for depreciation account, particularly if more than one year is concerned.

In many answers, the cost of the assets were incorrectly introduced into the account, a surprising number of candidates found the calculations for the straight line basis of depreciation challenging, and various written down values of the assets were calculated, often incorrectly.

The balance sheet extracts, by contrast, were reasonably answered, although, in many cases using incorrect figures from (a)

This performance was again disappointing in an important area of principle and Centres are urged to encourage candidates to prepare this area of the syllabus.

**Part (a)**

The first part of the question required candidates to calculate the depreciation to be charged on two separate assets over a given period of years, and then for each asset separately, to show the entries in the provision for depreciation account. The correct answers are:

Provision for depreciation account - Cooker

	\$		\$
31 March 2006 Balance c/d	<u>180</u>	31 March 2006 Profit and loss account (or Depreciation account)	<u>180</u>
		1 April 2006 Balance b/d	180
31 March 2007 Balance c/d	<u>360</u>	31 March 2007 Profit and loss account	<u>180</u>
	<u>360</u>		<u>360</u>
		1 April 2007 Balance b/d	360

Provision for depreciation account – Motor Van

	\$		\$
31 March 2007 Balance c/d	<u>1 500</u>	31 March 2007 Profit and Loss account (or depreciation account)	<u>1 500</u>
		1 April 2007 Balance b/d	1 500

**Part (b)**

This required candidates to state the net book values of the two assets as found from their original cost and accumulated depreciation from the accounts as prepared in part (a).

The correct answers are:

- (i) the cooker           \$ 840  
(ii) the motor van       \$ 4500

**Part (c)**

This required the candidate to complete an extract from the fixed asset section of a balance sheet using the information and calculations from (a) and (b).

The correct entries were:

Paula  
Balance Sheet at 31 March 2007 (extract)

	Cost \$	Provision for Depreciation \$	Net book value \$
Fixed assets			
Cooker	1200	360	840
Motor van	6000	1500	4500
	7200	1860	5340



**Question 5**

**Part (a)** asked candidates to state a reason for preparing a Trial Balance. Most were able to give one of the acceptable reasons, such as to prepare final accounts, to check the arithmetical accuracy of the ledger, to find errors, or to check that the accounts balance.

In **Part (b)**, candidates were given a list of balances and asked to prepare the trader's trial balance, showing any difference as a suspense account. The rubric should have alerted candidates to the fact that there was a difference and those who made efforts to balance the trial balance without a suspense account made errors and did not earn marks.

Common errors were to include the overdrawn bank balance on the debit side, to reverse debtors and creditors and to omit stock altogether. Capital and drawings were sometimes reversed. Each of these errors resulted in a different figure to be transferred to the suspense account, but if the account was correctly included and the trial balance balanced, the candidate earned some of the available marks.

The correct trial balance is:

Ismail Khan		
Trial balance at 30 April 2007		
	\$	\$
Sales		125 000
Stock	14 500	
Purchases	76 000	
Bank (overdraft)		2 300
Machinery	9 000	
Debtors	1 700	
Creditors		2 800
Expenses	37 500	
Capital		15 500
Drawings	8 000	
Suspense		1 100
	146 700	146 700

In **Part (c)**, candidates were given information about errors which had been found in preparing the trial balance, and were asked to prepare the journal entries, including a suitable narrative, to correct these errors. This required a careful study of the accounts and principles involved, and many candidates gave reversed journal entries, earning no marks, as well as entries such as debiting and crediting the same account, which made no accounting sense. In showing a narrative, many candidates explained that various types of error had been made, often giving errors which did not affect the trial balance and so could not have been correct. Those who made an attempt to explain what their journal entry was designed to achieve earned the available marks.

The correct journal entries and an acceptable narrative is as follows:

Suspense	2 000	
Sales		2 000
<i>To correct cash sales omitted (error of single entry)</i>		
Drawings	400	
Suspense		400
<i>To correct error in drawings account (error of double entry)</i>		

Cash	500	
Suspense		500
<i>To include cash balance in trial balance (error of single entry)</i>		

After preparing these journal entries, the candidate was asked to state in **(d)** the remaining balance on the suspense account. The correct answer was nil, as the journal entries should have corrected all the errors in the trial balance.

Many candidates correctly stated nil, but a surprising number gave \$1 100 as the answer, without stating whether the balance was a credit or a debit balance. A further surprising number gave \$2 000 as their answer, which was the total on both sides of the account after posting the entries. This showed either a lack of understanding or that candidates should read the requirements of the question more carefully.

# ACCOUNTING

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<p><b>Paper 0452/03</b></p>
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<p><b>Paper 3</b></p>
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## General comments

This structured examination paper was designed to discriminate between candidates obtaining Grades A to C. It is recommended that only those candidates who have studied the Extended Curriculum and who are expected to achieve at least a Grade C should be entered for this paper. All the questions were compulsory and were set mainly on the Extended Curriculum topics. As usual the paper was designed so that some of the marks were relatively easy to earn, but other marks could only be earned by those candidates who demonstrated a greater degree of knowledge and understanding.

Candidates are reminded of the importance of showing calculations where appropriate. Where an incorrect figure is shown no marks can be awarded if there is no evidence of how that figure has been arrived at. Where calculations are shown it may be possible to award some of the available marks. It is also important that candidates read each question carefully before attempting an answer. Some answers, though factually correct, could not be awarded marks as they were not answering the question being asked. Lack of attention to detail also cost marks on some scripts. An example of this is the use of inappropriate details and the omission of dates in ledger accounts.

## Comments on specific questions

### Question 1

Using given data candidates were required to write up two personal accounts and accounts for purchases and purchases returns, and to answer theory questions about the division of the ledger and control accounts.

- (a) Candidates were asked to state one advantage of dividing the ledger into specialist areas. This should have been a relatively straightforward question and it was disappointing to find many incorrect responses. A common incorrect response was the prevention of errors. Some candidates provided answers which were inadequate and required further explanation. For example, a statement that "it reduces the risk of lost data" was not regarded as sufficiently clear to award the mark.
- (b) Using information in the books of original entry, candidates were required to write up the accounts of two creditors in the purchases ledger. Both traditional "T" accounts and three column running balance accounts were equally acceptable. The standard of answers was somewhat disappointing, bearing in mind that a similar question had been asked on a previous occasion. Marks were often lost because entries were undated. The use of inappropriate wording in the details column also resulted in lost marks. For example, the word "goods" is not acceptable for "purchases" and "bbd" is not acceptable for "balance".

A number of candidates either entered the gross amounts of the purchases and purchases returns or put the gross amount on one side of the account and the trade discount on the opposite side. Candidates should be aware that trade discount does not appear in the accounts in the personal accounts.

- (c) The entries in the purchases account and the purchases returns account for the month were required. Both traditional "T" accounts and three column running balance accounts were equally acceptable. Many answers were disappointing. It was common to find candidates listing entries for the individual creditors instead of simply transferring the totals of the purchases journal and the purchases returns journal. The total of the cash purchases for the month was often omitted.

- (d) Two advantages of preparing control accounts were required. It was pleasing that most candidates were able to provide two acceptable answers. Common incorrect responses included the calculation of sales/purchases and the correction of errors.
- (e) Candidates were required to state the entry in the sales ledger control account for three items. There were some wholly correct answers, but there appeared to be a degree of guesswork on the part of some candidates.

### Question 2

This question was on the topic of bad debts and provision for doubtful debts.

- (a) Candidates were required to state two effects on the final accounts of applying the principle of prudence. The introduction to the question had explained how the trader applied this principle and maintained a provision for doubtful debts. Clearly some candidates did not read the question carefully and discussed the principle of prudence in general. It was expected that candidates would explain that this ensured that neither the net profit nor the debtors were over-stated. There appeared to be some degree of uncertainty on the part of some candidates. For example some stated that the profit would not be under-estimated nor would it be over-estimated.
- (b) The name of one other accounting principle applied when maintaining a provision for doubtful debts was required. It was pleasing that the majority of candidates correctly identified the matching principle. A few incorrectly suggested the principles of consistency and realisation.
- (c) Using given data, ledger accounts had to be prepared for a debtor, bad debts, bad debts recovered and provision for doubtful debts. Both traditional "T" accounts and three column running balance accounts were equally acceptable. Once again it was common for inappropriate wording to be used in the details column. For example, the use of the word "goods" is not acceptable for "sales".  
  
It was pleasing to find a large number of correct accounts – especially the debtor's account and the provision for doubtful debts account. There were some wholly correct bad debts and bad debts recovered accounts, but there were also some very confused attempts. The topic of bad debts and provisions is clearly a topic where some of the candidates would have benefited from further tuition.
- (d) Candidates were required to complete a table to show the effects of not maintaining a provision for doubtful debts on the net profit and the total current assets. The answers indicated a considerable amount of guesswork. The design of the table could have been improved, however, which would have assisted candidates to understand exactly what was required.

### Question 3

The value of a quantity of missing stock had to be calculated by means of a trading account. Candidates then had to calculate the net profit, share it between two partners and prepare the partners' current accounts. Finally a table had to be completed showing the treatment of goodwill on the admission of a new partner.

- (a) Details of the sales, purchases, opening stock and some stock remaining at the year-end were given together with the percentage profit margin. Candidates were asked to calculate the value of the missing stock by means of a trading account. It was pleasing to find a large number of wholly correct answers. The majority of candidates managed to earn at least half of the available marks. Some of the weaker candidates failed to make use of the gross profit margin and did not attempt to insert as figure for the missing stock. As expected, some candidates confused margin and mark-up.
- (b) The vast majority of candidates correctly deducted the expenses from the figure of gross profit calculated in (a) to arrive at a figure for net profit.
- (c) Many candidates correctly deducted interest on capital from their own figure of net profit and shared the residue equally between the partners. A number of candidates incorrectly included the drawings (sometimes described as interest on drawings) in the calculation. Some candidates overlooked the interest on capital and simply divided the net profit between the partners.

- (d) Candidates were required to write up the current accounts of the partners. Both traditional “T” accounts and three column running balance accounts were equally acceptable. It was pleasing to find the majority of candidates saving valuable time by preparing “T” accounts in columnar form. Many candidates gained high marks on this question. Some lost marks needlessly because of the use of inappropriate wording in the details column and the failure to bring down balances on “T” accounts. The omission of one of the items such as drawings or share of loss (profit) was not uncommon. It was disappointing to find a high number of candidates entering the share of loss as a minus figure on the credit side/credit column.
- (e) A table had to be completed to show the ledger entries necessary to enter goodwill on the books and then write off that goodwill. The answers were generally disappointing, especially as a similar question has been asked on a previous paper. Many candidates knew to apportion the amount of goodwill according to the profit-sharing ratios but failed to make the necessary entries. It was not adequate to simply list the names of the partners: the name of the actual accounts were required. It is important that candidates realise that any adjustment for goodwill is made in the capital accounts and not the current accounts. Once again there was some evidence of candidates not reading the question carefully as they tried to treat the tables as actual accounts.

#### Question 4

Candidates were presented with a list of assets and liabilities and asked to prepare a balance sheet after the correction of five errors. This was followed by two theory questions about objectives to consider when selecting accounting policies.

- (a) The answers to this question were often disappointing. It was expected that candidates would be able to prepare a balance sheet in good style. Presentation in either horizontal or vertical format was acceptable. Many omitted to show side headings and sub-totals for fixed assets, current assets and current liabilities. Where a vertical balance sheet was produced it was common to find that the working capital was not labelled (and sometimes was not shown at all).

Despite being asked to show the calculation of the corrected net profit, many candidates failed to do so and lost marks when an incorrect figure was provided without any supporting calculations. Some candidates simply inserted a balancing figure, which was automatically incorrect if there was another elsewhere in the balance sheet.

Some candidates had difficulty in making appropriate corrections for the five errors. These should have been corrected as follows:

Wages owing	reduce net profit show as accrual in current liabilities
Goods for own use	increase net profit add to drawings
Depreciation of equipment	reduce net profit reduce value of equipment in fixed assets
Bank charges	reduce net profit deduct from bank balance (resulting in a bank overdraft which should have been included in the current liabilities)
Delivery charges	increase net profit add to debtors in current assets

- (c) Candidates were required to name three objectives (in addition to relevance) which should be considered when selecting accounting policies. There were some wholly correct responses. Other candidates simply listed three accounting principles.
- (d) The meaning of the term “relevance” was required. The answers were extremely disappointing. Many candidates did not attempt an answer. Other candidates attempted to explain the word in general terms, completely unrelated to accounting.

It was expected that candidates would explain how financial information is only relevant if it can be used in at least one of the following ways:

- To confirm or correct prior expectations about past events
- To assist in forming, revising or confirming expectations about the future
- As a basis for financial decisions

### Question 5

This question involved calculating and interpreting accounting ratios and the problems of inter-firm comparison.

- (a) Using given data, candidates were required to calculate the current ratio, quick ratio, collection period for debtors and payment period for creditors. The first two were to be correct to two decimal places and the last two were to be rounded up to the next whole day. It was pleasing to find some wholly correct answers. Marks were lost by some candidates, however, by providing an incorrect answer without supporting calculations.
- (b) An explanation was required on why the quick ratio is more reliable than the current ratio as an indicator of liquidity. The majority of candidates were able to explain that the quick ratio excludes stock which is regarded as the least liquid of the current assets.
- (c) Candidates were required to state whether the trader would be satisfied with the change in the quick ratio. Most candidates correctly interpreted their answer to (a).
- (d) One possible reason for the change in the current ratio was required. There were very few acceptable responses. A number of candidates mentioned a change in either the current assets *or* the current liabilities but failed to state that there must also be no significant change in the other part of the equation.
- (e) It was pleasing that most candidates interpreted the change in the debtors' collection period correctly and gave a correct response based on their answer in (a).
- (f) An explanation of how the change in the debtors' collection period affected the payment period for creditors was required. Many candidates correctly explained how the increase in the debtors' collection period had a "knock-on" effect on the payment period for creditors (or provided a suitable response based on their answers in (a)).
- (g) The name of one other liquidity ratio was required. A large number correctly stated the rate of stock turnover. It was disappointing that many offered the return on capital employed as a liquidity ratio.
- (h) Four problems of inter-firm comparison were required. It was disappointing to find many candidates failing to read the question carefully. Reference was made in the question to the businesses being of similar size and dealing in similar goods, so answers relating to these factors were not acceptable in this particular situation. There were many wholly acceptable responses, however, and most candidates earned at least one of the three marks available. A few answers were not regarded as sufficiently clear. For example, a statement that the business must be the same type is not sufficient as this could refer to either the type of business structure (sole trader, partnership etc.) or the type of business itself (retailer, manufacturer etc.).