

# 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>A</b>	21	<b>D</b>
2	<b>C</b>	22	<b>D</b>
3	<b>C</b>	23	<b>A</b>
4	<b>B</b>	24	<b>B</b>
5	<b>B</b>	25	<b>D</b>
6	<b>C</b>	26	<b>D</b>
7	<b>B</b>	27	<b>C</b>
8	<b>D</b>	28	<b>C</b>
9	<b>A</b>	29	<b>A</b>
10	<b>A</b>	30	<b>D</b>
11	<b>B</b>	31	<b>B</b>
12	<b>B</b>	32	<b>C</b>
13	<b>A</b>	33	<b>C</b>
14	<b>A</b>	34	<b>C</b>
15	<b>B</b>	35	<b>A</b>
16	<b>B</b>	36	<b>B</b>
17	<b>B</b>	37	<b>A</b>
18	<b>C</b>	38	<b>B</b>
19	<b>D</b>	39	<b>D</b>
20	<b>C</b>	40	<b>B</b>

## General comments

This was the fourteenth sitting of this paper.

There were 6003 candidates (compared to 5492 in November 2006). The mean mark was 23.1 out of 40 (compared to 23.9 in November 2006). The standard deviation was 7.6 (compared to 7.1 in November 2006).

Judged against the accessibility of 60–90%, one item was slightly easier than anticipated. The candidates found a significant number of items more difficult than was anticipated.

All the items were within the Core Syllabus.

Candidates are advised to obtain copies of past examination papers and to practise answering multiple choice items. It is important to read the items very carefully before selecting an answer.

### **Comments on specific items**

#### **Items 6, 7, 14, 15, 16, 17, 19, 20, 21 and 35**

All these items involved the application of basic double entry principles. It was extremely disappointing that such a large number of candidates failed to apply these principles correctly.

57% selected the key in **Item 6**. The statistics indicate a level of uncertainty of the entries in the capital account of a trader.

It was anticipated that the majority of the candidates would recognise the accounting principle described in **Item 7** as being that of duality.

In **Item 14** only 31% correctly selected the petty cash book as being part of the double entry system. It was surprising to find that 46% believed that the trial balance was part of the double entry system.

95% knew that the figures to be entered in the ledger in **Item 15** were \$33 000 and \$1500, but 31% failed to give the correct double entry.

**Item 16** involved the preparation of a simple account of a creditor to find the closing balance. This should have been a straightforward calculation. 60% selected the key, but selection of options A and C suggest a degree of guesswork.

Only 40% selected the key in **Item 17**. Selection of the other options suggests a high degree of uncertainty about the division of the ledger.

In **Item 19** the vast majority of candidates realised that the debit side of the trial balance would be greater than the credit side. Only 27% knew that debiting instead of crediting an account with \$30 would result in the debit side of the trial balance being \$60 greater than the credit side.

It was disappointing to find a substantial degree of guesswork in **Item 20**. It was anticipated that the majority of candidates would be able to select the key, C.

In **Item 21** 89% realised that entries were required in the sales account and the suspense account, but only 58% knew which account required a credit entry and which a debit entry.

**Item 35** required the preparation of a simple total debtors' account to find the total credit sales for the period. Once again the statistics reveal a lack of understanding of double entry principles.

#### **Item 10**

This should have been a relatively easy item. It was expected that the majority of candidates would have selected credit notes issued to customers as the key.

#### **Item 12**

This was expected to involve a straightforward calculation. It was extremely disappointing to find a large number of candidates simply deducting 15% from the list price of the goods. Candidates should be aware that cash discount is only deducted if payment is made in the specified period.

#### **Item 24**

This item involved adjusting an expense for opening and closing prepayments. As similar items have appeared on previous papers, the number of correct responses was extremely disappointing.

#### **Item 25**

80% realised that the fixed assets would be too high as a result of the error; but 36% mistakenly believed that the net profit would also be too high.

**Items 26 and 27**

These items were on the topic of depreciation.

In **Item 26** it was disappointing to find a number of candidates believing that fixed assets are shown at market value in the balance sheet.

It was important to read **Item 27** carefully. Candidates who failed to do this selected option D, which was the net book value of the asset after one year (rather than two years asked for in the question).

**Item 29**

The statistics indicate a substantial degree of guesswork. Similar items have appeared on previous papers. Candidates should know that stock is always valued at the lower of cost and net realisable value.

**Items 32 and 33**

These items were on the topic of partnership.

**Item 32** required candidates to give the double entry for interest on drawings. 31% selected option A which was the entry for interest on capital.

In **Item 33** 46% of candidates made the fundamental error of dividing the net profit by two and adding the partner's salary. The correct procedure was to divide the *residual* net profit by two and then add the partner's salary.

# ACCOUNTING

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

Candidates generally performed well on some of the questions on this question paper; there were many good scripts and evidence that many 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. As on previous occasions, one specific part proved difficult for candidates where they were required to explain a concept in their own words. In **Question 2**, **(a)** was very poorly answered with only the best candidates earning all the marks, **(b)** was answered somewhat better, but **(c)** was also not well attempted. **Question 3(a)** and **(b)** were very well answered but answers to **(c)** were not good. **Question 4(a)** was very poorly answered, possibly because candidates found the question ambiguous but candidates gained marks in **(b)**. **Part (c)** was not well answered but the calculations in **(d)**, **(e)** and **(f)** were satisfactorily answered and gained valuable marks. **Question 5(a)** and **(b)** were well answered with many candidates gaining all the available marks for **(b)**.

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 and, as mentioned in previous reports, it is not possible to give credit to candidates who do not show these. It is recommended that centres always encourage their candidates to show how they worked out the answers to numerical questions. Further, in two cases, numerical answers were requested to be given to two decimal places, and in others it was necessary to make monetary calculations. Candidates should read the question and not give answers rounded to the nearest whole number, or show only one, or alternatively six or seven places of decimals, possibly as shown on their calculator. Failure to follow the specific rubric may result in marks being lost.

## 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 **(f)**.

- (a)** Most candidates were able to identify correctly the concept of money measurement but a number just repeated the wording in the question as the incorrect answer.
- (b)** Most candidates were able to identify correctly two current assets, such as stock (inventory), debtors, prepayments, bank or cash.
- (c)** The correct answer is the capital account; a number of candidates gave the cash account in error.
- (d)** Many candidates correctly gave the Trading (and profit and loss) account as their answer.
- (e)** 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.
- (f)** Candidates generally understood the concept of a bad debt but many had difficulty in explaining the concept in their own words to gain the mark.

- (g) Many candidates did well on this item, but some thought purchasing materials for use in the machine was capital and, as previously, some candidates gave what appeared to be random answers. The correct answers are shown in the table:

	Capital expenditure	Revenue expenditure
Rent paid for use of workshop		√
Purchase of machine for workshop	√	
Purchase of materials for use in machine		√
Repairs to roof of workshop		√

- (h) This item asked candidates to calculate the quick ratio from balance sheet items given. The requirement specifically asked for workings to be shown and for the answer to be given 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. Candidates who failed to follow the rubric were unable to achieve full marks.

The quick ratio is found by the formula: (Current assets less stock) / current liabilities

In this case Current assets = Debtors (\$4 000) + stock (\$6 200) + bank (\$1 600) = \$11 800.  
Current liabilities = Creditors \$3 200

The quick ratio is therefore:

Current assets (£11 800) – Stock (6 200) / current liabilities (\$3 200)  
= 1.75:1

## Question 2

This question required a good understanding of the cash book, of bank statements and the bank reconciliation. **Part (a)** was very poorly answered with most candidates not understanding the significance of the difference between the balance on the cash book and the balance on the bank statement at the beginning of the month of September and therefore not being able to explain how the difference arose.

Many candidates gave general answers relating to the need for adjustments to the cash book and the bank reconciliation but these were not relevant to the specific question and earned no marks.

The correct answer is that the balance on the cash book at 1 September 2007 is not the same as the balance on the bank statement at that date because there was an unpresented cheque (No 070, written in August or before) for \$900. Some candidates gave unlikely answers, for example that the bank had made a mistake or an error of transposition had occurred in the cash book. One candidate thought the question was wrongly printed.

**Part (b)** was quite well answered but some candidates used incorrect narratives (bank or cheque numbers) in the cash book and the majority of candidates showed an additional (but wrong) cash book entry in the month of September for the cheque (070) for \$900. A number of candidates used the wrong balance brought down into the cash book and started their answer with \$13 200 and not the correct figure of \$12 300.

The correct answer was as follows:

## Abdullah – cash book (bank columns)

2007			2007		
September		\$	September		\$
1	Balance brought down	12 300	8	Tarvik	1 900
2	Homer	3 600	20	Electricity	800
14	Parma	4 600	24	Insurance	240
			28	Rent	1 000
			30	Bank charges	75
			30	Balance carried down	16 485
		<u>20 500</u>			<u>20 500</u>
October					
1	Balance brought down	16 485			

**Part (c)** asked candidates to prepare the bank reconciliation statement at 30 September 2007. Answers were very varied. The better candidates realised that the bank balance was a fixed amount and they needed to reconcile their adjusted cash book balance to this figure. Many imaginative answers attempted this, and the most common error was to include the \$900 cheque again in the reconciliation as well as in the cash book.

The correct reconciliation is:

Abdullah – bank reconciliation statement at 30 September 2007

	\$
Balance on bank statement at 30 September	17 485
Less: unrepresented cheque (for rent, 073)	<u>1 000</u>
Balance in adjusted cash book at 30 September	<u>16 485</u>

Answers beginning with the adjusted cash book balance and reconciling to the bank balance were accepted.

### Question 3

This question required candidates to complete a pro-forma balance sheet, then, using information from the balance sheet, to calculate the current ratio and the return on opening capital employed for the business concerned and then to suggest reasons why two businesses should have a different return on capital employed.

**Part (a)** was well answered with most candidates correctly inserting the missing words and figures in the pro-forma balance sheet. Some candidates included the total figure for fixed assets as well as the individual items (which may have been as a result of a subtotal line being printed incorrectly). Most candidates realised that the capital at 30 September needed to be inserted as the same figure as the net assets at that date, and that drawings could be calculated as the difference between the closing capital and the total of opening capital and net profit.

The correct entries are:

- (i) Net book value
- (ii) \$ 300
- (iii) \$ 8,600
- (iv) Net current assets *or* working capital
- (v) \$14 100
- (vi) (Net) profit
- (vii) \$ 5 600
- (viii) \$14 100

In **part (b)** most candidates were able to calculate correctly the current ratio from the balance sheet items and many were also able to calculate correctly the return on opening capital employed. Common errors were to calculate the quick ratio (omitting stock), to use incorrect items copied from the balance sheet (for example by using \$11 100 as the figure for current liabilities), to calculate working capital instead of one of the required items, and to use the wrong figure for capital in calculating the return on capital. Many candidates used average capital or closing capital even though the question stated that opening capital should be used.

The answers are:

- (i) current ratio = (stock + debtors + cash/bank) / creditors  
 = (5 200 + 8 600 + 1 100) / 3 800  
 = 3.92:1
- (ii) return on opening capital employed = (net profit / opening capital) x 100%  
 = (6 700 / 13 000) x 100 %  
 = 51.54 %

**Part (c)** required candidates to suggest two reasons why one business should have a higher return on capital employed than another business. The better candidates realised that the two components of the formula for the return on capital were net profit and capital, and gave good answers stating that the business with the higher return may have had a higher net profit or lower capital. Other acceptable answers would include that the businesses may have been of different types, be selling different products, or be more or less capital or labour intensive – but it is necessary for the candidate to identify correctly which of the two businesses would have which attributes.

#### Question 4

**Part (a)** of this question was very poorly answered but it appeared that many candidates had misunderstood the wording “statement of account” and instead of realising that this referred to a supplier’s statement of account sent at the end of the month had interpreted it as a bank statement or a summary final account such as a profit and loss account or a balance sheet. The meaning should have been clear from the context of the rest of the question which was about sales, purchases and trade and cash discount.

The answer to information to be found on a supplier’s statement of account would have included the customer’s name and address, the date, the total of sales invoices, total sales returns, invoice numbers, the sales invoice amounts and the total due, any cash discount, the net total due, the opening balance and any cash received since the last statement, the terms of business and the due date for payment.

**Part (b)** required completion of a pro-forma invoice and was well answered.

The correct answers were:

- Sasha (not Invoice)
- 1 August 2007
- 170
- \$0.85
- \$144.50 (**not** \$144.5 as many candidates answered as this was what their calculator showed – when calculating monetary amounts the cents should always be shown to the exact amount.)

Answers to **part (c)** were variable. The question asked for an extract of the cash book showing the entries in respect of the receipt of payment of an invoice with cash discount applied. The correct answer should have shown the bank and discount columns of the debit side of the cash book and it was not necessary to show any entries on the credit side nor to carry down any balances.

Many candidates showed the cash received and the discount received as entries on separate lines in the cash book and balanced the cash book to show the total. This is not correct and candidates lost marks for this presentation. The correct layout of the debit side of the cash book is:

Zak – cash book				
	Detail	Discount	Bank	
2007		\$	\$	
12 August	Sasha	3.61	140.89	

**Parts (d), (e) and (f)** required calculations of trade discount, the net amount payable, and cash discount based on the information given earlier in the question. As these calculations were sequential, the answers should have been related to each other, and many candidates did correctly realise that, for example, the answer to **(d)** was used in **(e)**, and the answer to **(e)** was used in **(f)**. Marks were, however, earned by candidates who correctly calculated the required amounts but made a single mistake which was then followed through into later answers, provided these had been calculated using a correct method.

The correct answers are:

**Part (d)**            250 pencils @ \$0.85 each = \$212.50  
Trade discount 5% x \$212.50 = \$10.62

**Part (e)**            Net amount of the invoice  
\$212.50 – \$10.62 = \$201.88

**Part (f)**            Cash discount allowed @ 2½%  
\$201.88 x 2½% = \$5.05

### Question 5

Most candidates made a good attempt at presenting the journal entries in **part (a)** but common errors were to combine the two separate partners' capital accounts or to include the loan as a single figure with the capital accounts. Some candidates also combined the expenditure into categories or again as a single figure. Many candidates had difficulty in showing the correct treatment of the bank entries; there should have been two separate entries, one for the amounts received, and one for the amounts paid out, although the better candidates could have combined them into a composite entry, showing only a single bank entry of \$550 Dr.

The correct journal entries were:

Hedda and Marie – Journal

Bank	Dr	3 400	
Hedda – capital			1 800
Marie – capital			600
Mish – loan			1 000
Shop fittings	Dr	850	
Cash register	Dr	400	
Purchases (of stock)	Dr	1 00	
Bank			2 850

**Part (b)** required candidates to calculate the interest charged on the loan from Mish for the first month of trading and then to calculate the share of profit earned by one of the partners after adjusting for the interest on the loan. Many candidates incorrectly calculated interest on the loan as 1% of the profit for the month and not as 1% of the amount of the loan and then carried their error through into the calculation of the profit share.

There was some confusion as to whether the share of profit should be calculated before or after adjusting for the interest on the loan and some candidates effectively, but wrongly, charged Hedda with the whole of the loan interest. Some candidates also unnecessarily calculated both partners' shares of the profit after deducting the loan interest. However, most candidates did earn the majority of the available marks for this part of the question.



The correct answer is:

- (i) Loan interest \$1 000 @ 1% = \$10.00
- (ii) Share of profit:  $(\$590 - \$10) = \$580 \times \frac{3}{4} = \$435$

# 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. Only those candidates who had studied the Extended Curriculum and who were expected to achieve at least a Grade C should have been entered for this paper. Some candidates would have benefited from further study before attempting an examination of this level. All the questions were compulsory and were set mainly on the Extended Curriculum. The questions were so designed that some of the marks were relatively easy to earn, but other marks could only be earned by demonstrating a greater degree of knowledge and understanding.

Candidates are reminded that it is important to read each question carefully before attempting an answer. Some answers, although factually correct, could not be awarded marks as they were not answers to the questions being asked.

The importance of showing calculations where appropriate cannot be emphasised enough. Where an incorrect figure is shown no marks can be awarded if there are no supporting calculations. Where calculations are shown it may be possible to award some of the available marks. Many scripts were very neatly presented, but some were rather untidy and were difficult to read. Neatness is also beneficial to candidates. Neat work means that candidates are less likely to use incorrect figures in their final answer after a correct calculation in their workings or when carrying forward figures from one part of a question to another.

Marks were sometimes lost through lack of attention to detail. Failure to follow the specific rubric may result in marks being lost. If a calculation is required correct to two decimal places, full marks will not be awarded if the answer is only correct to one decimal place. In final accounts it is important to label figures such as cost of production, gross profit etc and in ledger accounts in the "T" format it is important to bring down balances as required.

## Comments on specific questions

### **Question 1**

Candidates were required to write up a petty cash book using the imprest system and to answer two theory questions relating to petty cash books.

- (a) An explanation of the imprest system was required. Many responses were disappointing. Some answers were restricted to an explanation of why a petty cash book was used. Many candidates did mention that the petty cashier was reimbursed but failed to provide a full explanation. Under the imprest system the chief cashier makes up the cash remaining so that it is equal to the imprest amount. The petty cashier thus starts each period with the same amount of money (the imprest).
- (b) Using given data, candidates were required to write up a petty cash book, balance the book at the end of the period, and make the entry for the restoration of the imprest. Some candidates were able to gain high marks, but others showed a surprising lack of understanding of the basic principles of petty cash. A few candidates failed to appreciate that the payments should be recorded in the total paid column and also in the appropriate analysis column. The refund from a stationery supplier was sometimes incorrectly shown as a minus in the total paid column. Lack of dates, incorrect wording in the details column, not totalling analysis columns, failing to show matching totals on the total paid and total received columns etc resulted in the loss of marks.

- (c) Candidates were required to explain how the double entry is completed for items recorded in the analysis columns of a petty cash book. Some candidates restricted their explanation to the maxim that "every debit has a credit": others believed that a double entry was made by making an entry in the total paid column and then in the appropriate analysis column. At the end of the period the totals of the analysis columns for expenses are debited to the appropriate expense accounts in the ledger. The individual items in the ledger accounts column are debited to the appropriate creditors' accounts.

### Question 2

This question concentrated on the topic of manufacturing accounts. Candidates were required to prepare a manufacturing account and a trading account, to calculate the rate of stock turnover and to answer theory questions relating to stocks.

- (a) An explanation was required why stock should be valued at the lower of cost and net realisable value. Many candidates recognised that this was an application of the principle of prudence or discussed the importance of not overstating profits and stocks. Other candidates provided very vague answers such as "so that stock value is accurate". A number of candidates provided completely unrelated answers.
- (b) and (c) Candidates were required to prepare a manufacturing account and a trading account from information provided. Vertical presentation and horizontal presentation were equally acceptable. A number of candidates were able to earn high marks on these sections of the question. Common errors included:

- Duplication of items in both the manufacturing account and the trading account
- Starting the manufacturing account with sales and attempting to deduct the manufacturing costs
- Incorrect calculation of the depreciation of machinery for the year
- Failure to distinguish between the different types of stocks
- Failure to label figures such as prime cost, cost of production, gross profit
- Failure to use suitable narratives (e.g. "PC, "C of P, "OS" etc are not acceptable)

- (d) Using their answer to (c), candidates were required to calculate the rate of stock turnover of finished goods. Marks were sometimes lost because of failure to show workings or failure to show the answer correct to two decimal places. It was disappointing to find some candidates using the sales figure rather than the cost of sales figure. The answer to a calculation of the rate of stock turnover is not a percentage or a ratio; it is a number of times in a period.
- (e) Two ways in which the trader's rate of stock turnover could be improved were required. Many candidates correctly suggested reducing the stock levels. A number incorrectly stated that the cost of sales should be reduced. Only a few suggested generating more sales activity.

### Question 3

Using given data, candidates were required to prepare an income and expenditure account and a balance sheet of a music club and to answer a related theory question.

- (a) Candidates were required to prepare an income and expenditure account. Vertical presentation and horizontal presentation were equally acceptable. It was disappointing to find a number of candidates reversing an account presented using the horizontal method.

The calculation of the subscriptions and the property tax caused problems for many candidates. The subscriptions received during the year should have been reduced by the amount of \$150 owing at the beginning of the year and increased by the amount of \$350 prepaid at the beginning of the year. The property tax paid during the year should have been reduced by the amount of \$400 owing at the beginning of the year and also reduced by the amount of \$240 prepaid at the end of the year. Those candidates who provided calculations often gained some of the available marks. Where an incorrect figure was provided without calculations, no marks could be awarded. This highlights the importance of showing workings. Where an incorrect figure is shown no marks can be awarded if there are no supporting calculations, but if calculations are shown it may be possible to award some of the available marks.

Candidates are reminded that it is preferable to set the expenses of a fund-raising activity against the revenue from that activity to show the profit/loss. It was disappointing to find many candidates failing to "net" the concert ticket sales and the concert expenses. Other common errors included:

- Inclusion of assets and/or liabilities such as bank balance and musical instruments
- Failure to include depreciation of instruments
- Failure to include bank charges
- Describing the deficit as a net loss

- (b) One item appearing in the receipts and payments account which should not be included in the income and expenditure account had to be selected and an explanation why it should not appear provided. It was pleasing to find many candidates correctly selecting either the opening bank balance (explaining that it was a bank overdraft and a liability at the beginning of the year) or the purchase of new musical instruments (explaining that these were fixed assets and would appear in the balance sheet). It was disappointing to find a few candidates selecting premises and property tax.
- (c) Candidates were required to prepare a balance sheet of a music club. Vertical presentation and horizontal presentation were equally acceptable. Generally the answers to this question were disappointing. Most candidates did correctly show the total fixed assets of \$40 700 and the current asset of property tax prepaid of \$240. A number of candidates incorrectly included the accruals and prepayments at the beginning of the year.

Many candidates failed to calculate the closing bank balance correctly. This should have been the total of the receipts side of the cash book summary, \$12 550, less the total of the payments side of the cash book summary, \$1 5 830, and less the bank charges, \$210. This should have resulted in a bank overdraft of \$3490. It was disappointing to find a large number of candidates simply putting in a balancing figure for accumulated fund in order to make the balance sheet totals agree. The accumulated fund should have been calculated using the list of assets and liabilities on 1 October 2006. The assets totalled \$41 950 and the liabilities totalled \$2370, giving an accumulated fund of \$39 580. A number of candidates obviously attempted some calculation, but their workings were not evident, so no marks could be awarded.

#### Question 4

This question concerned the introduction of a new partner. Candidates were required to answer some short theory questions and then to prepare a goodwill account and the capital accounts of the partners.

- (a) One disadvantage to the existing partners of a new partner joining the business was required. Most candidates managed to provide an acceptable response – often explaining that the profit would have to be shared and therefore the share of the two original partners would decrease. A small number of candidates did not read the question carefully and provided an advantage rather than a disadvantage.
- (b)(i) Candidates were required to explain why, apart from agreeing the profit-sharing ratio, the partners should draw up a partnership agreement. Many acceptable answers were centered on avoiding future misunderstandings and disagreements. It was disappointing that a significant number of candidates did not read the question carefully and made reference to profit-sharing arrangements.
- (ii) and (iii) The data made it clear that of the three partners, one provided the most capital and one was responsible for the day-to-day running of the business. Candidates were asked to state one item each of these partners would want to include in the partnership agreement. A number of candidates failed to appreciate that one partner would want to include interest on capital and the other partner would want to include a partner's salary.
- (c)(i) Using given data, candidates were required to prepare the goodwill account in the ledger of the partnership. An account prepared in traditional "T" format, or in three-column running balance format was equally acceptable. Many candidates correctly apportioned the amount of goodwill, but failed to make the correct entries in the goodwill account. A few candidates presented a table showing the allocation of goodwill before and after the new partner joined the business. Those who attempted a ledger account often failed to indicate the name of the account in which the double entry would be made. It is important that candidates realise that any adjustment for goodwill is made in the capital accounts of the partners and not the current accounts. A number of

candidates presented a goodwill account for each partner (using columnar format); only one goodwill account should be used.

- (ii) Using their answer to (c)(i) and the information provided, candidates were required to write up the capital accounts of three partners. Once again, accounts prepared in traditional "T" format, or in three-column running balance format were equally acceptable. It was pleasing to find many candidates saving valuable time by presenting columnar "T" accounts. Lack of attention to detail and a degree of carelessness resulted in marks being lost. Common errors included:

- Opening balances described as capital
- No closing balances brought down on "T" accounts
- The money and office equipment introduced by the new partner combined and described as capital or balance
- Goodwill described as "share of profit"
- Incorrect double entries from the goodwill account to the capital accounts

### Question 5

Candidates were required to calculate the gross profit and net profit as a percentage of sales and suggest ways in which these percentages could be improved. Answers to small theory questions on objectives in selecting accounting policies were required. Finally candidates were required to list three business people who would be interested in the accounts of a trader, giving a reason in each case.

- (a) (i) It was pleasing to find that the majority of candidates were able to calculate the gross profit and then express this as a percentage of the sales. It was, however, disappointing that a significant number of candidates did not follow the instruction in the question about showing their answer correct to two decimal places.
- (ii) Many candidates were unable to suggest two ways in which the percentage of gross profit to sales could be improved. Acceptable responses included increasing selling prices and obtaining cheaper supplies. Common incorrect responses included increasing the sales and reducing the stocks.
- (b) (i) It was pleasing to find the majority of candidates correctly calculating the net profit and expressing this as a percentage of sales. Once again, marks were lost because the instruction to show the answer correct to two decimal places was sometimes ignored.
- (ii) Candidates were required to suggest two ways in which the percentage of net profit to sales could be improved. Many candidates correctly suggested that expenses should be reduced and that income should be increased. A few duplicated the reasons they had listed for (a)(ii).
- (c) (i) A definition of the term "comparability" was provided and candidates were required to state which objective for selecting accounting policies was being described. A large number of candidates provided the correct answer. From the variety of incorrect responses (such as "prudence", "matching", etc) it is clear that some candidates are not familiar with this section of the Extended Curriculum.
- (ii) An explanation of the meaning of the accounting term "reliability" was required. A number of candidates correctly explained that the information provided in financial statements must be reliable, and went on to explain that such information must be free from bias, or free from significant errors. It was disappointing to find a large number of candidates apparently unfamiliar with this section of the Extended Curriculum: many explanations were limited to an attempt at describing "reliable" in very general terms.
- (d) Candidates were required to list three business people (excluding the owner) who would be interested in the final accounts of a named sole trader. In each case, a reason for that person's interest was required.

It was very pleasing that the majority of candidates were able to provide at least two acceptable answers. However, some of the explanations provided were repetitive: an explanation of how creditors would want to know if the trader could pay back what he owed was often repeated as an explanation of the bank manager's interest. Some explanations were somewhat vague. It was disappointing to find a number of candidates suggesting shareholders and directors as being

interested parties when the business in question was that of a sole trader. A number of candidates failed to read the question carefully and included the owner of the business.