

# ACCOUNTING

**Paper 9706/12**  
**Multiple Choice**

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

## **Key messages**

Overall, the paper was quite well attempted by the majority of candidates.

There is a need to review costing topics. Thorough knowledge of marginal and absorption costing topics should help improve overall grades.

## **General comments**

Almost 50 per cent of the total candidates achieved a score of 15 or more correct answers. A number of questions were relatively straightforward and more than 70% of candidates identified the correct answer. The profile of answers indicates two distinct groups of candidates: those who had a good grasp of the topics and scored well, and those whose knowledge of certain areas requires further work.

There were three questions that candidates seemed to find challenging. These have been discussed here.

### Comments on specific questions

#### Question 14

The question asked for the bookkeeping entries to record an upward revaluation of partnership non-current assets. The majority of candidates opted for **D**, which was to debit the non-current assets and credit revaluation reserve. As the business was a partnership, the revaluation should have been credited to the partners' capital accounts, which was answer **B**. A partnership would not maintain a revaluation reserve in its books of account.

#### Question 21

Candidates were required to calculate the fixed cost element of a semi-variable cost. Data was given for the total cost per unit at two levels of output. A good approach for candidates would have been to multiply number of units and per unit cost to arrive at the total cost for each level of output. This would have made the solution far more straightforward than attempting to work out the answer on a per unit basis. Using the totals, an increase of 60 units resulted in an increase of \$3000 in cost. This increase was the variable element, which was \$50 per unit. Once that was discovered it was then necessary to gross this up for the total output and deduct the answer from the total cost for the output, giving the answer of \$2000.

#### Question 30

Candidates were asked which statements identified a disadvantage of break-even analysis. Virtually every candidate knew that statement 2 was a disadvantage. This was the only statement which was a disadvantage, so the correct key was **C**.

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<p><b>Paper 9706/22</b> <b>AS Level Structured Questions</b></p>
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## Key messages

Candidates should always provide clear workings when answering computational questions. Marks will always be awarded for valid workings even where the final answer is incorrect.

In written questions, candidates should make sure that they provide sufficient development to their answers. One or two word answers will seldom suffice.

## General comments

Whilst there was much good work, particularly in **Question 1**, many candidates did not seem to be well-prepared for the written questions. This was particularly noticeable in both **Question 1** and **Question 4** where candidates were required to give advice. It is always the case that advice must be supported by relevant justification and only the best prepared candidates were achieving this.

The presentation of answers in the financial accounting questions was not satisfactory.

## Comments on specific questions

### **Question 1**

The question concentrated on preparation of accounts and an income statement from incomplete data. The latter part of the question required candidates to calculate ratios and offer advice to the trader.

- (a) Required candidates to prepare a cash account in order to calculate the trader's drawings for the year. Most candidates demonstrated good double entry skills and were able to gain good marks.
- (b) Many candidates demonstrated good knowledge and understanding in calculating the cost price of stolen inventory by constructing a trading account to determine the missing figure.
- (c) Calculation of the income statement was generally well done by most candidates. Many candidates did not use the correct terminology such as profit for the year rather than net profit.
- (d) (i) and (ii) Whilst almost all candidates were able to correctly state the formulas to calculate current ratio and liquid (acid test) ratio, very few were then able to correctly calculate the ratios.
- (e) (i) Most candidates were awarded two marks for correctly identifying two further ratios to explain its liquidity position. Most selected trade payables turnover and trade receivables turnover.
  - (ii) Most candidates were equally successful in stating two limitations of using ratio analysis.

- (f) The final part of the question required candidates to advise the trader, with justification, whether or not she should increase the mark-up on her goods. Well prepared candidates were able to achieve good marks by discussing both the advantages and disadvantages of doing this, though less well prepared candidates did not develop their arguments sufficiently to gain more than two or three marks.

## Question 2

The second question tested candidates' knowledge of double entry in respect of the provision for doubtful debts and an expense account.

- (a) (i) Most candidates were able to state why a business may make a provision for doubtful debts .
- (ii) Almost all candidates correctly identified one accounting concept applied while making a provision for doubtful debts.
- (iii) Only the best prepared candidates were able to gain full marks for the preparation of the provision for doubtful debts account. Whilst many candidates were able to correctly calculate the provision, attempts to correctly identify and process the transfer to the income statement were often poor.
- (b) (i) and (ii) Whilst most candidates recognised that the provision should be deducted from trade receivables in the statement of financial position, responses to the treatment in the income statement were less satisfactory. Many candidates did not state that an increase in the provision would be shown as an expense, but that a decrease in the provision would be shown as additional income after the gross profit.
- (c) Preparation of the telephone expenses account that included both prepayments and accruals was not well done. A significant number of candidates did not process a transfer to the income statement but carried down a balance into the following year. It should be remembered that where there are both accruals and prepayments, they should be shown separately, not netted off.

## Question 3

The question centred around calculations to prepare an extract from the statement of financial position recording non-current assets.

- (a) Most candidates correctly calculated the total depreciation charge for the year for buildings using the straight-line method.
- (b) Calculation of the total depreciation charge for plant and machinery proved more challenging due to the purchase and sale of machines during the year and the resultant time-apportioned charge.
- (c) Preparation of the extract from the statement of financial position was not well done by most candidates. Many seemed unfamiliar with the correct layout for the extract and were often unable to correctly account for the revaluation of the land.
- (d) Virtually all candidates were able to correctly identify three causes of depreciation.

## Question 4

The final question concentrated on cost and management accounting. This particular question focused on the differences between marginal and absorption costing.

- (a) Many candidates were unable to state the difference between a cost unit and a cost centre sufficiently well to gain marks.
- (b) Although candidates had an idea of the difference between a production cost centre and a service cost centre, many provided very brief and basic responses that missed the point that production cost centres are directly involved in production whilst service cost centres are not.
- (c) Whilst most candidates correctly identified the formula for contribution, they did not develop their answer to state that it represented the contribution towards covering the fixed costs.

- (d) Whilst some candidates clearly did not know the difference between a marginal cost statement and an absorption cost statement, many candidates answered the question well. It should be remembered that in a marginal cost statement it is vital to correctly identify and label contribution.
- (e) A significant number of candidates were unable to correctly calculate the production overhead absorption rate per unit.
- (f) The absorption cost statement proved more challenging than the marginal cost statement. Many candidates made errors in calculating the closing inventory or often omitting it completely. Many combined admin costs with production costs or did not appear to know the correct format for the statement.
- (g) The reconciliation of the difference in the budgeted figures calculated using the two costing methods proved challenging for many candidates. Many did not use the figures they had already calculated in the statements and then did not identify that the difference was caused by the different inventory valuations.
- (h) Only a small number of candidates gained full marks for advising the trader whether or not they should change from marginal costing to absorption costing. A number of candidates simply listed how each method operated. Many candidates did not give advice and often simply stated that one would give a higher profit than the other. The question required advice that was backed up by the benefits of the chosen system – this was seldom provided.

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<p><b>Paper 9706/32</b> <b>A Level Structured Questions</b></p>
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## General comments

Overall candidates performed reasonably well. The numerical parts of questions were answered better than the written parts.

## Comments on specific questions

### Question 1

- (a) Most candidates only scored one of the three available marks as their answers were not related to IAS 38.
- (b) This was well answered although only a few candidates scored full marks. It is essential for International Accounting Standards (IAS) terminology and correct labelling to be used.
- (c) Many candidates calculated the working capital cycle correctly but a significant number used the quoted credit terms of 30 days rather than calculating the turnover days from the given information.
- (d) Most candidates made a reasonable attempt and did provide appropriate improvements actions. Some candidates did not state whether or not liquidity could be improved.

### Question 2

- (a) Only a few candidates demonstrated an understanding of the role of the internal auditor.
- (b) Performance was varied with some excellent responses but also some poor ones. Very few candidates provided an appropriate explanation for information 3 but there were some good responses for the other three items with good application of the relevant IAS.
- (c) Many candidates made the inventory adjustment correctly but relatively few adjusted correctly for the depreciation.
- (d) Few candidates produced a correct statement of changes in equity. Many omitted the paid dividend and some did not account for the profit for the year.
- (e) The statement of financial position was produced to a high standard with many scoring full marks. Those candidates who had made errors in previous parts of the question were rewarded for transferring their own figures to the statement.
- (f) Few candidates performed well on this part.

### Question 3

- (a) This was very well answered with any candidates scoring full marks.
- (b) This was also well answered with many candidates scoring full marks. A few candidates incorrectly referred to the profit as a surplus and a limited number either omitted the purchases adjustments or made errors in its calculation.
- (c) This was generally well answered. Some candidates made errors with labels and balances.
- (d) Many candidates provided the four required actions and scored full marks.
- (e) This was not answered so well with few candidates able to state relevant advantages and disadvantages.

### Question 4

- (a) The consignment account was prepared to a high standard with few errors. The most common error was not posting the final amount to the income statement.
- (b) Candidates did not do well on preparation of the account. Most candidates used incorrect labelling in the account.
- (c) Candidates did not prepare the goods sent on consignment account well. Most candidates used incorrect labelling.
- (d) The preparation of this account was reasonable with most providing some correct entries. A limited number of candidates did reverse the entries.
- (e) This was well answered with most candidates able to provide two valid answers.
- (f) Most candidates did make a decision but the reasoning was often not valid. Some stated that the home project was 'high risk' despite the question clearly stating that there was a guaranteed return of 12%.

### Question 5

- (a) Most candidates answered this part well.
- (b) Most candidates calculated the material and labour variances correctly but were unable to calculate the fixed overhead variances.
- (c) The reconciliation was prepared to a reasonable standard with most candidates transferring their own calculated variances to the statement correctly. Many candidates struggled with the standard production cost although most dealt correctly with the actual production cost.
- (d) Most candidates did provide a decision. The justification was generally acceptable with most gaining two or three extra marks and a limited number obtaining full marks.

### Question 6

- (a) Most candidates demonstrated an understanding of net present value but only a limited number appeared to understand the internal rate of return with many believing that it did not use the time value of money.
- (b) This was very well answered with many candidates scoring full marks. Those that did make some errors in the calculation of the cashflows generally still scored high marks as they applied the discounting process correctly to their own figures.
- (c) This was also well answered with some candidates scoring full marks. Some candidates did make some calculation errors but none were common and overall performance was satisfactory.
- (d) Most candidates did provide a reasonable analysis of the benefits.