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FOREWORD

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

Paper 9706/01
Multiple Choice

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

General comments

6047 candidates took this paper (compared to 5848 in November 2004). The paper consisted of 30 items. The mean score was 15.6 (compared to 16.5 in November 2004). The standard deviation was 5.2 (compared to 5.6 in November 2004).

The number of candidates who took the paper in this diet was similar to the number that took the paper in November 2004 (an increase of only 3.4%). The decrease in the mean score indicates that the overall performance declined, although this paper contained two items that proved too easy (in November 2004 there were none) and only one item that proved to be too difficult (there was one in November 2004). There was only a small reduction in the standard deviation, indicating that the papers for the two years were very similar in their discrimination.

All the items were within the scope of the syllabus.

Two items (**21** and **26**) proved to be too easy. (November 2004: none).

One item (**8**) appeared to be too difficult (November 2004: one).

Comments on specific questions

Item 3

46% of candidates thought that the cost of the replacement of a part of a fixed asset should be treated as capital expenditure. Such expenditure does not constitute an improvement in the asset compared to its original state.

Item 5

Nearly half of the responses were equally divided between options **A** and **B**. Road tax is an annual tax; it is revenue expenditure as it does not add to the cost of the vehicle. The number plate and the cost of painting the vehicle (including the wages of the painter) added to the initial cost of the vehicle.

Item 8

28% of candidates correctly recognised that the principle concerned was prudence. Spare parts were no longer obtainable and the machinery could not be considered to have any value as a result 42% chose materiality which is concerned with the relative significance of individual items within a business as a whole.

Item 14

45% of candidates correctly selected **B** and 41% chose **A**. Negative Goodwill was shown as a capital reserve until December 1998 when a new Accounting Standard (issued in December 1997) required negative Goodwill to be shown as a deduction from intangible assets. Schools not using the latest text books would not be aware of this unless they had kept abreast of current developments in accounting practice.

Item 17

Only 38% of candidates correctly selected **B**. 51% selected **A** as they overlooked the fact that the net balance of cash at bank was only \$6000. A bank overdraft is a liability which must not be ignored in calculating the asset of cash taken over by the partnership.

Paper 9706/02
Structured Questions

General comments

Generally well done – a majority of the candidates appeared to have covered the relevant syllabus areas to the required depth. One general point – a small number of candidates headed up columns with \$000, which is only a good idea if *all* of the figures in the question/answer are going to be in complete thousands, otherwise decimal points tend to be misplaced.

Comments on specific questions

Section A

Question 1

The main part of this question consisted of a Trading, Profit and Loss and Appropriation account followed by a Balance Sheet and some discursive work and should have been within the capabilities of any candidate of A Level standard.

- (a) The candidates were expected to subtract all of the credit balances from all of the debit balances to arrive at a figure of \$43 000. Provided the candidate knew which were credits or debits this was an easy mark, but only about half completed it correctly.
- (b) Most candidates entered most figures in the correct section though a minority thought that returns should be shown in Profit and Loss and the interest figures were sometimes placed in the Appropriation. The calculations which seemed to cause most problems were the provision for doubtful debts, often \$1425 instead of \$425, and the proposed ordinary dividend which was given various amounts but was often omitted altogether. Net figures were expected – e.g. for wages, the acceptable figure was \$82 000, not \$80 000 followed later by \$2000.
- (c) The Balance Sheet was not completed correctly by many – examples of errors are as follows:
- the \$3000 bad debt was not deducted from debtors
 - dividends due bore no resemblance to the figures in the Appropriation section
 - Net Current Assets (Working Capital) figure was omitted or not named
 - no indication was made of the number of shares issued
 - items were not placed in the correct section – for example, Issued share capital, i.e. Ordinary and Preference shares, should be together, Reserves should be together, and if Creditors due after one year are added to the Financed by section then they should appear at the foot of the Balance Sheet. Alternatively the last-named should be deducted from Net Assets.
- (d) Candidates' answers varied widely – most had at least a vague grasp of the uses of Share Premium and a few had obviously made a point of learning about it.

Question 2

Generally high marks attained here.

- (a) Most candidates gained at least three out of the four marks available here – the main problem being the omission of the bank balance. A few used the end of year figures despite having been asked to calculate the accumulated fund at the beginning of the year.
- (b) Again, many candidates attained full marks here.

- (c) Good marks again, though a large majority included the loan from members as Income, and calculation of subscriptions was sometimes reversed. Only the Trading account was asked for in (b), and for those who correctly did this a further calculation was required to find the correct figure for restaurant profit for inclusion in Income and Expenditure. The final figure in the account should be 'Deficit' or 'Surplus' or similar terminology, but not 'Profit' or 'Loss'.

Question 3

Varied attempts at this question with candidates scoring across the whole range of marks.

- (a) Although the question clearly asked for profit statements for September 2005, a minority endeavoured – unsuccessfully – to calculate the unit cost. This section was rarely attempted in the exact manner of the mark scheme, but marks were awarded wherever possible within the constraints of Absorption versus Marginal costing, and high marks were often attained.
- (b) This section could be answered either by comparing the actual figures in the question or by a discursive answer – most candidates chose the latter method, and many scored full marks.
- (c) About half of the candidates divided Fixed costs by the contribution to sales figure, then multiplied the answer by 800. This seemed an unnecessarily complex method which required using the 800 figure twice – Fixed costs divided by Unit contribution was simpler. Almost all candidates who attempted this section attained some marks.

Paper 9706/03
Multiple Choice (Extension)

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

General comments

5107 candidates took this paper (November 2004: 5030). The mean score was 16.9 (November 2004: 15.5). The standard deviation was 6.1 (November 2004: 5.3).

The number of candidates in November 2005 and 2004 was similar (an increase of only 1.5%). The mean score showed an improvement (1.4 marks), although the paper may have been a little more difficult because two of the items proved difficult. The increase of 0.8 in the standard deviation shows that the level of discrimination had increased still further.

All the items were within the syllabus.

No items proved to be too easy (November 2004: none).

Two items (**4** and **6**) proved to be too difficult (November 2004: none).

Comments on specific questions

Item 2

31% of candidates correctly selected **A**. 25% omitted to include the redemption of \$500 debentures in their calculation. 30% simply deducted the 2004 total from that for 2005, indicating a serious weakness in their knowledge of cash flow statement preparation.

Item 4

More than half the candidates (56%) thought that a Capital Redemption Reserve may be used to finance the redemption of redeemable preference shares and that reserve is a capital reserve and may not be used to finance the redemption of shares. Share redemption may only be financed out of reserves which might otherwise be used to pay dividends (or out of the proceeds of a fresh share issue). Only 18% correctly chose the key **D**.

Item 6

Only 20% of candidates knew that a company may issue redeemable preference shares only when it has already issued non-redeemable shares. Companies must not be able to redeem the whole of their share capital. 61% selected option **D** which could include capital reserves.

Item 24

Only half of the candidates correctly selected **B**. The production required in month two for that month's sales was 1400 units (2100 less 700 brought forward from month 1). A further 800 units had to be produced for month three sales. Total production in month two = 2200 units.

Item 25

This was a typical budgeting topic requiring logical thinking but only 35% of candidates selected the correct option, **D**. Almost an equal number (33%) included all the credit transactions which were not settled before the end of month two into their calculations.

<p style="text-align: center;">Paper 9706/04 Problem Solving (Extension)</p>
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General comments

It was pleasing to note that once again the standard of candidates' work continues to improve.

There was a good spread of marks throughout the range.

There were a good number of high quality scripts where the candidates showed a good facility to apply their knowledge and skills in a problem-solving situation. Once more, there were very few extremely poor scripts.

There was a general improvement in the presentational skills of candidates and there were fewer examples of candidates using their own version of layouts for questions demanding an 'accepted' layout. In the main, most answers followed a more logical approach and structure than in previous years.

There were fewer extremely untidy scripts.

It was pleasing to note that the number of candidates who show detailed workings, especially in the form of 'T' accounts, is still on the increase. This means that, in most cases, Examiners are able to trace workings into the candidates' answers (where marks are allocated) and are therefore able to award part (or method) marks where appropriate. This is very important to candidates, especially where their mark may, without workings, be just below a grade boundary.

However, a number of candidates should avoid excessive use of workings that are inappropriate. For example, in **Question 1 (a)** many candidates showed detailed workings to close down the partnership books of account. This was not a requirement of the question and the construction of these workings must have used much valuable time that could have been used more productively in a later part of the question paper.

Where candidates were familiar with the topics they were able to make good attempts.

Teachers are to be commended for the continuing improvement in the work of candidates who present themselves for this examination.

There were no obvious rubric misinterpretations.

There were no obvious examples of candidates failing to complete the paper because of pressure of time.

Comments on specific questions

Question 1

Generally, this was the best answered question in most scripts.

Most candidates made a reasonable attempt at parts **(a)** and **(b)** of the question and these proved to be the most consistent parts of the paper to score the highest marks in individual scripts.

- (a)** This part of the question was generally well done and most candidates scored in excess of 10 marks, many candidates scored either 16 or 17 marks.

The balance sheet of Harmonica Ltd was in the main neatly and accurately prepared. The layouts were good and followed acceptable formats.

A number of candidates deducted the partnership assets and liabilities from the assets and liabilities of the company. However, the vast majority of candidates did combine the assets and liabilities of the two businesses.

A significant number of candidates were unable to calculate the goodwill taken over by the company. Most of these candidates omitted the goodwill completely although some candidates arrived at an incorrect figure.

The only current asset to pose a problem was the bank balance. The most common incorrect figure being \$180 000. Some candidates showed the balance at bank as \$120 000 with an additional cash-in-hand figure of \$60 000. Although this figure did score a mark, the net current asset mark was lost due to the inclusion of an extraneous item.

Many candidates did not include a figure for debentures but those that did, invariably scored both marks. A number of candidates included the interest payable on the debentures rather than the loan itself.

The share capital and reserves section of the balance sheet was in the main well done, although a significant number of candidates were unable to separate the premium on the shares from the shares themselves. In some scripts, candidates ignored the issue of additional shares.

Many candidates included the debentures in this section of the balance sheet and this is acceptable, but candidates using this layout must make it clear that they know that the debentures are not part of the share capital and reserves. This is most effectively achieved by using the heading 'Creditors: amounts falling due after more than one year' which makes it clear to the Examiner that the candidate is aware that the debentures are not a constituent part of the share capital or the reserves.

A small number of candidates included the partnership capital accounts in the company balance sheet.

(b) This part of the question was less well done than the first part.

Many candidates scored well and the majority of candidates scored between 10 and 13 marks. Only a few candidates scored maximum marks for this part of the question.

The vast majority of candidates were able to score all the available marks up to and including the mark for the operating profit.

It is always important to give as much information as possible in any answer. The candidates who scored less than the 10 marks available up to this point usually dropped marks because of poor (or no) labels. The analysis of turnover had to be labelled correctly to attract maximum marks; the 'gross profit' label had to be present and the costs and expenses had to be labelled and deducted from the gross profit.

Most candidates were able to treat the profit on discontinued operations correctly although many candidates placed it in an inappropriate position in the profit and loss account. Very few candidates achieved the four marks allocated to the correct calculation of the interest due on debentures. A good number of candidates charged \$6 000 to the profit and loss account (a full year's interest) and thus scored three of the four marks available.

(c) This part of the question was less well done than the other two parts. It was obvious that many candidates had never heard of exceptional items and so referred to items that they would expect to find on any profit and loss account of a limited company. The most common answers included turnover, profits, dividends, directors' fees, depreciation of fixed assets etc.

Question 2

This question was generally the lowest scoring on most scripts.

(a) Most candidates were able to make a reasonable attempt at this part of the question and there were a good number of high scoring answers. However, once again, many candidates' answers lacked the detail necessary to score highly. Accounting is a medium of communication and so should provide as much detail as possible. To score marks, candidates had to identify and quantify the changes in the value of the fixed and current assets and the benefits that would accrue to the shareholders if the scheme was implemented. Many candidates produced untidy and poorly organised responses.

It was pleasing to note how many candidates were able to calculate accurately the new nominal value of each of the ordinary shares at \$0.70.

Very few candidates were able to see the significance of the current rate of interest being paid on money invested outside the business. Indeed, a large number of candidates assumed that this was a source of income for Kalamitty Ltd.

- (b) Few candidates scored full marks for the Balance Sheet prepared after the implementation of the scheme. The adjustments to the total assets were in the main accurately done, although a significant number of candidates retained goodwill in their balance sheet. The problems that candidates encountered were most evident in the share capital and reserves section of the balance sheet. Most candidates did not adjust the value of the share capital and included it at the original value of \$2 500 000. Many candidates included a negative reserve of \$750 000 in order to make the balance sheet balance.

Some candidates did not use their balance sheet from part (a) as their starting point. These candidates either started with the original balance sheet values or alternatively merely showed the necessary adjustments.

- (c) Only a handful of candidates scored maximum marks for this part of the question.

The value of the tangible fixed assets was generally accurately calculated. It was pleasing to note how many candidates included the detail of their workings. This benefited those candidates who did not arrive at the correct value of \$945 000. Candidates who do not show workings and do not arrive at the correct figure in their answer are in danger of scoring zero marks.

The correct figure for net current assets proved to be more of a problem for most candidates.

The less good candidate was confused by the 'direction' of the adjustments. The most common errors involved ignoring the equity dividend paid and the increase in the cash balance over the year.

Many candidates deducted the decrease in creditors. Many candidates showed current assets and creditors falling due in less than one year separately which was an acceptable approach, however the vast majority of candidates that chose this approach deducted the creditors' adjustment from the current assets and so lost that mark.

Only a handful of candidates were able to calculate accurately the Profit and Loss Account balance. These candidates were able to determine the retained profit for the year and deduct from this the equity dividend paid. A significant number did show the dividend as a deduction from the share capital and reserves and so scored that one mark.

- (d) This part of the question was rather less well done than had been expected. A good number of candidates appeared to believe that the report was drawn up for use by the directors. Others identified items required in published accounts; they listed cash flow statements, fixed asset schedules; auditor's reports etc.

Many candidates repeated much of their answer to part (a). Better candidates did list items to be included in the director's report. However, there was a tendency for candidates to merely list items for inclusion. Although this approach did answer the question and was rewarded accordingly in the majority of cases it was unclear what the candidate actually meant. Candidates should be encouraged to give a brief explanation to show the Examiner that they do understand what they have written.

'Activities'; 'Donations'; 'Research and development' as bland statements do not convey to an Examiner that the candidates knows what needs to be covered in the Directors Report with regard to these matters.

Question 3

The question was, in the main, well done and a significant number of candidates scored maximum marks. Layouts were clear and generally neat. Very few candidates used a horizontal approach to their calculations, nearly all candidates showed their answers in account format.

- (a) Most candidates scored well in this part of the question. The main error was to include direct materials at \$12 000 and then the other costs at a price per unit i.e. direct labour \$28; variable costs \$17.5 and fixed overhead \$24.5.
- (b) Better candidates scored well on this part of the question and indeed there were a pleasing number of candidates who scored all 23 marks.

Many candidates used 2 000 units in order to calculate the additional costs incurred in process 2. This however was not disastrous if the candidate showed his/her workings. Indeed, some candidates made this error and were awarded almost maximum marks since the rest of their answer was perfect.

Because of the complexity of the calculations involved in this type of question it was essential to provide the Examiner with workings to back up any incorrect figures entered in the individual accounts.

A good number of candidates were able to calculate the work in progress to be carried forward and thus the finished production figure. Once again the provision of workings meant that good marks could be scored for a less than perfect answer.

- (c) The account for process 3 was well done. The major errors were to transfer 2 000 units of production to the account and to include \$19 680 spoiled production in the account. Many candidates scored eight marks a large majority were able to score six marks.