

ACCOUNTING

Paper 7707/11
Multiple Choice

| Question Number | Key | Question Number | Key | Question Number | Key |
|-----------------|-----|-----------------|-----|-----------------|-----|
| 1 | C | 13 | B | 25 | A |
| 2 | A | 14 | C | 26 | C |
| 3 | A | 15 | A | 27 | C |
| 4 | D | 16 | D | 28 | B |
| 5 | D | 17 | A | 29 | D |
| 6 | A | 18 | B | 30 | D |
| 7 | A | 19 | A | 31 | D |
| 8 | B | 20 | C | 32 | D |
| 9 | C | 21 | D | 33 | A |
| 10 | A | 22 | B | 34 | C |
| 11 | C | 23 | A | 35 | B |
| 12 | A | 24 | C | | |

General comments

Many candidates possessed a good understanding of the topics examined and were able to select the correct key to many items on the paper. Practice at multiple choice questions would help candidates to improve their performance in this paper.

Candidates should be familiar with all topics on the syllabus and possess a thorough knowledge of accounting. Candidates should be prepared to answer questions which involve calculations and those which do not. Candidates should read each item very carefully before selecting an option on the answer sheet.

Comments on specific questions

Question 2

This question covered the difference between book-keeping and accounting. The correct answer was **A**. Many candidates correctly identified that accounting involves measuring profits and losses. However, some answers assumed that accounting is the recording of financial transactions.

Question 3

This question asked candidates to identify which book of prime entry cash discount received is recorded in. The correct answer was **A**. Most candidates found this question straight-forward and answered correctly.

Question 4

This question required candidates to identify how totals in the petty cash book would be posted to the ledger. The petty cash book serves as the ledger account for petty cash. The totals for postage and stationery should be posted to the expense accounts in the ledger. The correct answer was **D**.

Question 8

This question covered the effect of a particular error of omission. The correct answer was **B**. Although there were many correct responses, some candidates found this question challenging.

In order to answer correctly, candidates had to identify that 11/12 of the payment related to the following year.

Question 10

Candidates were asked to select the items which would appear on the debit column of a bank statement. The correct answer was **A**. Although there were many correct answers, some responses assumed that only the bank charges would appear on the debit column of the bank statement.

Question 11

This question required candidates to calculate the bank balance in the cash book. The correct answer was **C**. One frequent mistake was to add amounts which should have been deducted and vice versa.

Question 15

This question required candidates to calculate the entry which would be made in the income statement in respect of rent receivable. The correct answer was **A**. One common error was to select the entry which would be made in the rent receivable account rather than in the income statement.

Question 17

This question covered the provision for doubtful debts. Candidates were asked to select the reasons for maintaining this provision. The correct answer was **A**. While there were many correct answers, a significant number of responses did not identify the correct reasons for maintaining a provision for doubtful debts.

Question 19

Candidates were required to identify the effect of correcting an inventory valuation. The correct answer was **A**. Most candidates selected the correct response.

Question 22

This question required candidates to identify what is included in a partnership appropriation account. Most candidates found this question straightforward and selected the correct option. The correct answer was **B**.

Question 25

Candidates were required to identify the correct features of debentures and of preference shares. The correct answer was **A**. Many candidates found this question challenging. In particular, some answers did not identify that both preference shares and debentures are included in capital employed.

Question 26

This question covered the calculation of the corrected deficit and accumulated fund for a club. The correct answer was **C**. Many candidates found this question challenging and responses did not identify that the correction to the inventory valuation would increase the deficit and therefore reduce the accumulated fund.

Question 30

This question required candidates to calculate the figure for revenue. Cost of sales was $(7000 + 35\,000 - 2000 =) \$40\,000$. So, revenue = $\$40\,000 \times 120\% = \$48\,000$. The correct answer was **D**.

Some candidates calculated cost of sales incorrectly and others used the figure for cost of sales as their final answer.

Question 33

Candidates were required to calculate the bank overdraft amount using the given figure for the liquid (acid test) ratio. As the liquid assets total is \$18 000, the total of current liabilities must be $(\$18\,000 / 1.2 =) \$15\,000$. This means that the bank overdraft must be $(\$15\,000 - \$8000 =) \$7000$. The correct answer was **A**.

Question 34

This question required candidates to identify the reason for the changes in profit margin and in return on capital employed (ROCE) from year 1 to year 2. The correct answer was **C**. While there were many correct answers, some responses mistakenly assumed that a long-term loan had been repaid. If a long-term loan had been repaid, capital employed would have been reduced and the return on capital employed (ROCE) would have increased.

Question 35

Candidates were required to apply the accounting principle of realisation. The correct answer was **B**. Many candidates found this question challenging. A significant number of responses assumed that the trader would not record revenue until full payment had been received.

ACCOUNTING

Paper 7707/12
Multiple Choice

| Question Number | Key | Question Number | Key | Question Number | Key |
|-----------------|-----|-----------------|-----|-----------------|-----|
| 1 | D | 13 | D | 25 | A |
| 2 | C | 14 | A | 26 | D |
| 3 | D | 15 | A | 27 | B |
| 4 | D | 16 | D | 28 | B |
| 5 | C | 17 | C | 29 | B |
| 6 | C | 18 | C | 30 | D |
| 7 | A | 19 | B | 31 | C |
| 8 | B | 20 | D | 32 | B |
| 9 | B | 21 | D | 33 | C |
| 10 | C | 22 | B | 34 | D |
| 11 | A | 23 | A | 35 | C |
| 12 | D | 24 | A | | |

General comments

Many candidates possessed a good understanding of the topics examined and were able to select the correct key to many items on the paper. Practice at multiple choice questions would help candidates to improve their performance in this paper.

Candidates should be familiar with all topics on the syllabus and possess a thorough knowledge of accounting. Candidates should be prepared to answer questions which involve calculations and those which do not. Candidates should read each item very carefully before selecting an option on the answer sheet.

Comments on specific questions

Question 1

Candidates were required to identify how a trader uses the information in financial statements. The correct answer was **D**. Most candidates answered correctly.

Question 5

This question required candidates to identify documents which would be used as sources of information for entries in the cash book. The correct answer was **C**. While there were many correct answers, some candidates found this question challenging.

Question 6

Candidates were required to identify the double entry for a cheque payment to a credit supplier. The correct answer was **C**. Most candidates answered correctly.

Question 8

This question covered the use of a suspense account to correct errors. In this case, \$200 was debited to the suspense account, so to correct the error, the suspense account would be credited, and the sales account would be debited. The correct answer was **B**. Although there were many correct responses, some candidates found this question challenging. In order to answer correctly, responses had to identify that the first error would not result in an entry in the suspense account.

Question 11

This question required candidates to calculate the bank balance in the cash book. The correct response was **A**. Some answers arrived at the correct figure but did not identify that, once the adjustments have been made, the bank balance is overdrawn, which is shown as a credit balance in the cash book.

Question 12

This question required candidates to identify that the sales ledger is not used as a source of information for making entries in control accounts. The correct answer was **D**. While there were many correct answers, some responses incorrectly assumed that the cash book would not be used for making entries in control accounts.

Question 15

Candidates were asked to select the journal entry required to record a particular depreciation charge. This involved calculating the depreciation charge. While there were many correct responses, a significant number of answers did not correctly apply the reducing balance method. The correct answer was **A**.

Question 16

This question asked candidates to identify the double entry required to remove the total depreciation on a vehicle which was sold. The correct answer was **D**. While there were many correct answers, some responses selected the correct ledger accounts but reversed the entries.

Question 17

Candidates were required to identify why it is important to match costs and revenues. The correct answer was **C**. Some candidates found this question challenging.

Question 19

This question covered inventory valuation. In this case, the net realisable value is lower than the cost, so the inventory would be valued at the net realisable value. The correct answer was **B**. Although there were many correct answers, some candidates found this question challenging.

Question 20

This question required candidates to select the correct explanation of unlimited liability. The correct answer was **D**. Most candidates answered correctly.

Question 23

Candidates were asked to calculate paid up capital. The correct answer was **A** ($190\,000 \times \$2 \times 75\% = \$285\,000$). While there were many correct answers, a significant number of responses did not multiply their answer by 75% and therefore arrived at an incorrect answer.

Question 25

Candidates were required to calculate the overall effect of irrecoverable debts and the change in the provision in doubtful debts, on the profit for the year. The correct answer was **A**. Many candidates found this question challenging. In particular, some responses added the reduction in the provision, to the irrecoverable debt, and therefore arrived at an incorrect figure.

Question 29

This question covered the effect of omitting the adjustment for work in progress, on cost of production and on gross profit. The correct answer was **B**. Many candidates found this question challenging. The adjustment for the increase in work in progress would reduce cost of production so omitting this adjustment would mean that the cost of production was overstated. This in turn would mean that gross profit was understated.

Question 35

Candidates were required to apply the accounting principle of realisation. The correct answer was **C**. Many candidates found this question challenging. A significant number of responses assumed that profit is earned when payment is received and banked.

ACCOUNTING

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| <p>Paper 7707/21 Paper 2</p> |
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Key messages

Candidates should have a thorough understanding of all the topics on the syllabus in order to achieve the top grades. In addition to recording financial information and preparing financial statements, candidates should be able to apply their knowledge to various scenarios. It is advisable to study past examination papers and to supplement that with working through suitable questions in accounting textbooks.

It is recommended that candidates read each question carefully before attempting an answer. They should then be fully aware of all the data which is provided and exactly what tasks they are required to complete.

It is important that the words and figures are legible to ensure that examiners can credit candidates and read all responses.

Some candidates required more space for their answers than was provided and others elected to write out an answer a second time. In such instances, it is important to put a note to the examiner to explain where this additional work can be found so that it is not overlooked.

General comments

All the questions on the paper are compulsory so it is essential the candidates are familiar with, and have an understanding of, all the topics on the syllabus.

Candidates are reminded of the need to use correct terminology within accounts and within financial statements. For example, in ledger accounts 'BBD' is not acceptable in lieu of 'Balance b/d,' in financial statements 'GP' and 'NP' are not acceptable in lieu of 'Gross profit' and 'Profit for the year.'

The paper included three questions of five marks each in which candidates were required to discuss a given scenario, giving points for and against and recommending a course of action. Many answers clearly listed the advantages and disadvantages and provided a recommendation. Other answers could have been improved by planning the answer so that the points could be collated in a suitable order.

Comments on specific questions

Question 1

- (a) Candidates were required to make entries in a trader's sales journal. This topic seemed to be unfamiliar to many candidates. Many responses confused this with a general journal and attempted to make debit and credit entries. The sales journal is a list of the names of credit customers with the dates and the values of the goods sold. The values of the goods should be net amounts after trade discount. At the end of the month the total should be transferred to the sales account.
- (b) A journal entry to write off an irrecoverable debt was required. Some responses earned full marks; others reversed the entry. Sometimes the narrative was omitted, was inappropriate or incomplete.
- (c) (i) The total amount received from trade receivables had to be calculated from the data provided. This involved adding together three figures. There were many correct responses.

- (ii) The total amount of cash discount allowed had to be calculated. There were many incorrect answers. Some responses included trade discount and some included cash discount on an invoice which had not actually been paid.
- (d) Candidates were required to prepare a sales ledger control account. A number of answers did not appreciate that the sales ledger control account summarises the transactions in the accounts of the credit customers and so only the totals for the month are entered (not individual sale, returns, receipts, discounts etc.). Many candidates correctly used the amounts they had calculated in **Parts (a) and (c)** for sales, receipts and discounts which earned own figure marks.
- (e) Advice had to be given to a trader on whether or not he should introduce credit checks on new customers and whether or not he should increase the rate of cash discount. Some candidates seemed not to understand what a credit check involved and had the misconception that the increased discount was for new customers only. There were some good answers where candidates carefully listed the points for and against this proposal and gave a clear recommendation. Other answers provided a confused statement and omitted to provide a recommendation.

Question 2

- (a) Candidates were required to prepare journal entries to correct five errors. There were some very good answers. Error 3 was challenging. Some responses used incorrect amounts in Errors 2 and 4. There were occasions when incorrect wording such as 'purchase invoice' and 'cash book' were used instead of account names.
- (b) The corrected bank balance had to be calculated. Some included the correct figures but did not give any indication of whether these increased or decreased the original bank balance. Others incorrectly included items which did not affect the bank balance such as Error 1.
- (c) The corrected profit for the year had to be calculated. Some responses did not give any indication of whether the items increased or decreased the original figure. Some responses included items which did not affect the profit for the year, such as Error 5.

Question 3

- (a) Using a trial balance and additional information candidates were required to prepare an income statement of a limited company. The well-prepared candidates were able to earn good marks. Common errors included:
- Incorrect wording such as C of S and GP
 - Incorrect adjustment for the accrued advertising
 - Incorrect calculation of depreciation
 - Inclusion of extraneous items such as share dividend
 - Omission of directors' salaries.
- (b) The retained earnings at the end of the year had to be calculated. Most candidates realised that they had to make adjustments to the opening retained earnings, but a variety of responses did not demonstrate that the profit for the year had to be added and the dividends deducted. It was common to see extraneous items such as directors' salaries included in the calculation.
- (c) Candidates had to prepare a statement of financial position of a limited company. Common errors included:
- Complete omission or incorrect figure of depreciation on the non-current assets
 - Omission of the headings for cost, accumulated depreciation and net book value
 - Omission of totals for the current assets and the current liabilities
 - Omission of the accrued advertising expense
 - Omission of retained earnings at year end
 - Inclusion of extraneous items such as opening retained earnings, profit for the year, dividends paid
 - Omission of total equity.

- (d) Advice had to be given to the directors of a limited company on whether to increase the amount spent on advertising by 100 per cent. There were some good answers. Some responses provided one advantage, but most answers provided two acceptable disadvantages. Some answers did not include a recommendation.

Question 4

- (a) A ledger account for rent receivable had to be prepared. Whilst there were many correct answers, some responses reversed the account. Attention should be paid to the details as well as the figures.
- (b) Candidates were required to prepare a ledger account for the disposal of office equipment. Incorrect details and dates were quite common. The depreciation to date on the equipment disposed of was often incorrectly shown or even omitted. This should have been \$1400 (two years' depreciation using the reducing balance method).
- (c) A table had to be completed to identify items of expenditure as either capital or revenue. There were many wholly correct responses. Item one was the most challenging.
- (d) Three ratios had to be calculated. There were many wholly correct responses. Common errors included:
- Inclusion of extraneous items such as payables in the cost of sales and opening inventory in the current and liquid ratios
 - Use of incorrect formulae such as multiplying the cost of sales by 100, multiplying the current formula by 365
 - Incorrect presentation of the answers such as adding a percentage sign to the rate of turnover answer and not including ':1' as part of the answer for the current and liquid ratios
 - Incorrect rounding of the answers to two decimal places.
- (e) Candidates were required to state two problems caused by a trader's rate of inventory turnover decreasing. A common error was to list the causes, not the consequences. The answers should have concentrated on the increase in storage costs, the danger of inventory deteriorating or becoming obsolete, and the problem of money tied up in inventory.

Question 5

- (a) Using data provided, candidates were required to calculate the total purchases for the year. A numerical calculation or a total trade payables account were equally acceptable. Many responses calculated the total credit purchase correctly but did not include the necessary adjustment for the cash purchases. Some answers included the adjustment for cash purchases on the payments to credit suppliers, rather than on the credit purchases.
- (b) An income statement had to be prepared. This involved calculating both the gross profit and the sales using the mark-up of 32 per cent. Many candidates knew the format which should be used for an income statement, but some seemed unsure of how to calculate the missing figures. The cost of sales was the purchases (calculated in **part (a)**) minus the closing inventory. 32 per cent of that figure represented the gross profit and 132 per cent represented the sales. There were some errors made in calculating the rent and insurance and the other expenses.
- (c) Advice had to be given to a trader on whether to sell on credit terms as well as cash terms. There were some good answers. A few responses incorrectly interpreted selling on credit to mean paying with a credit card. Some answers concentrated on the advantages or the disadvantages and did not present a balanced argument. Some answers did not include a recommendation.
- (d)(i) Candidates were asked to identify the accounting principle being applied when small cash payments were treated as revenue expenditure even though they lasted more than one year. A large number correctly identified materiality. A common incorrect answer was prudence.
- (ii) Few responses identified an advantage of applying the principle of materiality. Some answers mistakenly thought that the question related to petty cash.

- (e) Two advantages of maintaining a full set of double entry accounting records were required. Many responses earned at least one of the two available marks.

ACCOUNTING

Paper 7707/22

Paper 2

Key messages

There was a marked difference between candidates who were able to apply accounting information into bookkeeping systems when compared with those who rely too heavily upon answering only the discussion questions in detail. Accounting systems require a good understanding of how information is entered, updated, and corrected. A broad knowledge of the syllabus and the ability to apply the required skills will result in higher grades for candidates and provide a sound basis for subject progression.

General comments

Candidates who performed well had a proper understanding of the principles of double entry. This knowledge was linked to applying information into ledger accounts through the journal. Error treatment and the resolving of suspense accounts is essential in order to produce accurate financial statements.

The ability to calculate key ratios and interpret potential reasons for subsequent changes to them is an essential skill at all levels of producing accounting statements. Many candidates found it difficult to accurately calculate these frequently used ratios.

Comments on specific questions

Question 1

- (a) This question required a simple calculation to determine the amount of money required to restore the balance on a cash book using the imprest system. Many candidates calculated the balance remaining as \$53 but used this figure as their answer. The amount to top the cash balance back-up therefore was $\$150 - \$53 = \$97$. Some candidates tried to recreate the petty cash book in their answers which was not required and used up valuable time.
- (b)(i) (ii) Related to naming a book of prime entry and two advantages of using them. **Part (i)** was well answered as there were six options available to choose from. **Part (ii)** was less well answered, and this demonstrated a lack of understanding of the reason for using books of prime entry in a manual accounting system. Too many answers mentioned advantages of using double entry record keeping or to reduce instances of fraud. Good answers recognised that the use of them helped to organise and summarise information and avoided duplicating detail throughout the ledgers.
- (c) (i) Two marks were available for calculating two years of depreciation for a motor vehicle using the reducing balance method. This was considered a straightforward exercise but again a wide range of different answers identified this as a challenging area for candidates. Too often the straight-line method was used for both years. A third year was also calculated but not required. It is crucial that the date of disposal is correctly identified in order to determine any profit or loss that arises upon disposal which is explored in the next question. If an incorrect method of calculation is used this will lead to the error being transferred into the financial statements. It is essential candidates are able to conduct all types of adjustments to accounting information.
- (ii) Used the information gained in (c)(i) the accumulated provision for depreciation for the disposal of the motor vehicle ($\$3000 + \2250) to be transferred into the motor vehicle disposal account. The sale of a non-current asset is a common occurrence for businesses and the application of bookkeeping entries with relevant debit and credit entries requires practice. Often only one mark was gained by bringing the vehicle into the account at cost. The disposal on credit was frequently

shown as a bank transaction and the income statement narrative just recorded as profit or as a loss.

- (d) This was an interesting question that asked for the calculation of the combined valuation of three types of inventories held by a business. The value of inventory must include any cost of conversion and cost of transporting it to its current location. In this example carriage inwards had to be included unless it took the value above the net realisable value per unit as for product C. Common errors made were to ignore the cost of carriage and to value C at a higher price than net realisable value which is against the principle of prudence. Whilst candidates could gain one mark for totalling their calculations, for many this method of valuation had not been seen before.
- (e) The last part of this question required the preparation of an insurance expense account. Good answers showed that candidates had a sound understanding of double entry bookkeeping techniques and linked to how prepayments are recorded in an expense account. This question was challenging for candidates and highlighted the need to practice these techniques regularly. Accurate dates were required but again were often ignored.

Question 2

- (a) The manufacturing account was a well answered question and represented welcome marks for many candidates. The structure of the statement was followed closely with clear sections being identified and labelled correctly. Marks were missed by those candidates who started with a revenue figure and arrived at a gross profit instead of the prime cost. Sales staff and Supervisor wages often crept into direct costs incorrectly. It is important to make the distinction between direct costs and overheads. Weaker responses often included all three categories of inventory into the manufacturing section, and this demonstrated a lack of the proper understanding of the difference between a manufacturing account and an income statement.
- (b) Followed on from the theme of manufacturing accounts explored in **Question 2(a)** The question required candidates to produce an income statement that included the cost of production figure previously calculated. This statement was also well answered with candidates familiar with a trading account structure. If marks were not gained it was often because of not realising a cost of production figure should be included, or the components of the account were in a confusing order before arriving at the cost of sales figure. Candidates lost valuable time by continuing after the gross profit calculation by including operating expenses that are not required. Please remember to answer specifically what is asked for in the question.
- (c) There were a variety of responses to this question. Once the cost of production has been calculated (2a) a unit cost per product can be calculated. This forms the basis of cost-plus pricing models for manufacturing businesses. A simple calculation with a specific instruction to round answers up to the nearest dollar was often unfortunately ignored.
- (d) The last part of the question was a discussion on the scenario of whether to purchase discounted inventory from a previous competitor. Good answers for 3 and 4 marks were regularly seen. The advantages of buying discounted inventory leading to increased sales and profits were stand out points and linked to the possibility of acquiring damaged or inferior quality inventory ensured recommendation marks were awarded. There were good answers that followed an academic approach with points made for and against but often lacked a clear recommendation that would have achieved full marks.

Question 3

- (a) (i) The focus of this question asked which document showed when a direct debit for insurance had been paid. The emphasis was upon paid. This would only appear on the bank statement or a statement of account. Incorrect answers such as cashbook, invoice or counterfoil would not prove the payment had been made and received.
- (ii) Error 4 was the only error in principle in the information provided. Some candidates identified more than one type of error and in some instances tried to explain this type of error which was not required.

- (b) The importance of being able to identify the type of error that has occurred is key to being able to correct the bookkeeping through the application of journal entries. Few candidates gained full marks. Common mistakes were to label the sales account as the sales journal, not realising that the insurance needed to be doubled and entered discounts received and discounts allowed as corresponding debits and credits. Both errors 2 and 3 created an imbalance that would require a suspense account entry. Frequently errors 4 and 5 were answered but not required again wasting valuable time.
- (c) (i) The fact that some errors are not readily found means that a balance on the suspense account will remain. This is a realistic business scenario. Too many incorrect answers discussed compensating errors and the difference in the amounts entered into the accounts.
- (ii) The balancing-off of the suspense account is a natural progression following on from the journal entries to correct applicable errors in **Question (3b)**. The opening balance on suspense account was the difference between the totals of the trial balance. Frequently this was missed, or a closing balance was arrived at but labelled as the difference on the trial balance. This type of question highlighted a lack of knowledge of the nature of the accounting error and those errors that require passing through the suspense account.
- (d) The conclusion of this question required a calculation of the impact that various errors had upon the final profit after their correction. Good answers were structured clearly using + and – analysis columns as opposed to a string of figures which often did not indicate the impact of an increase or decrease in profit. This type of question should always start with the unadjusted profit figure before correction (\$17 420).

Question 4

- (a) This was a popular question with candidates. Most were well prepared from the presentational aspect although as this was a service type of partnership many attempted to produce a gross profit which was not required. Adjustments for accruals to salaries and depreciation were straightforward. The prepayment for rates and insurance was more difficult and applied to a proportion of the accounting year. Common errors were to ignore the need to adjust or made a total adjustment of \$1920. Loan interest also was not recognised as being an operating expense and sometimes added to the revenue figure. Weak responses included items such as trade receivables and cash at bank as revenue or expense items. This demonstrated a fundamental misunderstanding of the difference between assets and liabilities, expenses, and revenues and to a recognition of where they appear in the final accounting statements.
- (b) This question was linked to **part (4a)** with the resulting profit for the year being transferred into the appropriation account for the partnership. High marks were achieved here with own figure marks being available for the final profit share. Emphasis is placed upon clear labelling of the appropriations to partners and initials cannot be used in the presentation of final statements. If errors were made it involved the omission of a starting profit figure or the use of revenue again. Current account balances and annual drawings figures will only be shown in the partnership current accounts and were not required in **parts (a) or (b)**,
- (c) (i) (ii) Textbook knowledge was required here and usually 1 or 2 marks were gained. A common answer for **part (i)** was to say it would increase profit. This is not correct and will only impact upon the partners share of the profits.
- (d) Performance on this question can be summarised as generally good. The admission of an experienced employee being offered a partnership role is a well-established scenario. 2 or 3 marks were often gained for comments common to the advantages and disadvantages of a partnership. To achieve higher marks candidates needed to refer to the context of the question regarding the level of experience and the potential to attract new business into the partnership. There were cost implications to be considered and the impact upon the existing partnership share of the profits. If recommendation marks were not gained it would be due to a one-sided approach to the discussion.

Question 5

- (a) The most surprising aspect of this question was how few fully correct answers were awarded. The ability to calculate and interpret ratios (see general comments) is critical to understanding the purpose of producing financial statements. The requirement here was to turn the accounting information into standard recognised accounting ratios. Calculations were often confused, lacked accuracy in terms of decimal point rounding and missing percentage signs. The inability to calculate the gross profit caused more problems than was expected. It is essential that all the workings that make up the calculations are recorded so that own figure marks can be given wherever possible, for example the profit margin based upon the initial gross margin calculations and cost of sales for use in the inventory turnover ratio.
- (b)(i) This was not well answered. Many referred to selling price increases, this was excluded in the question or simply said the cost of sales had decreased. This was not a reasonable explanation and stronger responses recognised that the gross margin can be increased by reducing the cost of purchases through a cheaper supplier or one who offered higher trade discounts.
- (ii) There were many reasons given here that were not realistic for being interested in Ajay's financial statements. For example, to compare prices of products or to invest in the business. The main reason is to confirm that the business is still operating and able to continue to supply products to its customers in the future.
- (c) This question required a discussion between the advantages and disadvantages of Ajay reducing his selling prices. This is a constant business question that all trading businesses keep under review. It was well answered with increasing sales/increasing profit and increased inventory turnover being seen regularly. The disadvantages were not so obvious but many recognised that the gross margin would be reduced, and any price reduction may raise the question from customers as to the quality of products being sold. Good balanced answers recognised the potential for liquidity issues to arise when linked with the drive to increase profits. Strong answers would gain a recommendation mark ensuring 4 or 5 marks on a regular basis.
- (d) The final question focused on what concerns many business owners have, that of falling profit margins. Emphasis here was on the inability to control expenses that would lead to the non-payment of wages and suppliers and the potential to shut down or bankrupt a business. Candidates often looked at short term strategies such as pricing, advertising, or obtaining external finance which declining profit margins will often not support.