

ACCOUNTING

Paper 0985/11
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 0985/12
Multiple Choice

There were too few candidates for a meaningful report to be produced.

ACCOUNTING

<p>Paper 0985/21 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 0985/22
Structured Written Paper

There were too few candidates for a meaningful report to be produced.