ACCOUNTING

Key Messages

Question 1 consisted of ten multiple choice items covering topics across the whole syllabus.

In Question 2 candidates were given some short answer questions, requiring knowledge of the division of the ledger, books of prime entry and preparation of ledger accounts.

In Question 3 candidates were required to prepare ledger accounts for bad debts, bad debts recovered, and provision for doubtful debts and to answer related theory questions. This was followed by short answer questions on financial statements of a limited company which was manufacturing business.

The main topic in Question 4 was the accounts of non-trading organisations.

Question 5 required candidates to update a trader’s cash book and to prepare a bank reconciliation statement. Short theory questions were also included.

In Question 6 candidates were required to prepare a partnership appropriation account and the current account of one of the partners. The question also included the calculation of capital employed, return on capital employed and correct profit for the year.

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Most candidates provided supporting calculations where appropriate. This ensured that they were able to earn a least some of the available marks, even though the final answer was incorrect.

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Item (h) required candidates to calculate the wages for the year. The correct answer was $4200 (Option C). This represented the amount paid during the year less the opening accrual and plus the closing accrual.

In Item (j) candidates were required to select a correct statement about financial statements. The key was B. There appeared to be a degree of guesswork on this item.

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(a) A thorough knowledge of book-keeping would have ensured that candidates understood that the sales and purchases accounts are maintained in the nominal (general) ledger and not the sales and purchases ledgers respectively. The account of the credit supplier would appear in the purchases ledger and that of the credit customer would appear in then sales ledger. Candidates are reminded that “general ledger” is an alternative term for “nominal ledger”.

(b) The majority of candidates successfully named the cash book, the petty cash book or the journal as another book of prime entry.

(c) An understanding of the books of prime entry would have ensured that candidates knew that the sales journal is a list of all credit sales, which reduces the number of entries in the sales account and enables work to be shared between several people. Common incorrect responses included that it listed all sales and that it showed the accounts of credit customers.

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(b) Candidates were required to explain how accounting for bad debts and providing for doubtful debts is an application of the principles of accruals (matching) and prudence.
The accruals principle ensures that the costs of a period are matched against the revenue of the same period. Credit sales which will not be paid or are unlikely to be paid are regarded as an expense of the period in which the sales were made.

Writing off bad debts and maintaining a provision for doubtful debts ensure that both the profit for the year and the trade receivables are not overstated.

(c) Candidates familiar with the accounts of a manufacturing business would understand that prime cost refers to the sum of direct materials, direct labour and direct expenses. A significant number of candidates listed only two of the three elements and many included both “direct labour” and “direct wages”.

(d) Candidates were asked to state the item which would appear in the trading account section of the income statement in place of “purchases” in a manufacturing business. The correct answer was “cost of production”. Common incorrect responses included “purchase of raw materials”, “purchases of finished goods” and “finished goods”.

(e) One difference between ordinary shares and preference shares and one difference between ordinary shares and debentures was required.

Candidates are reminded that in this type of question a comparative statement is required. For example, stating that ordinary shares carry voting rights and preference shares receive a fixed rate of dividend would not attract any marks.

(f) The interest charged on a bank loan had to be calculated. It was necessary to calculate 6% on $50,000 for 8 months.

(g) The majority of candidates successfully named two interested parties. A small number incorrectly referred to “the owner” or “the partners”.

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(b) Candidates were required to explain why a subscriptions account can have two balances. Mention was often made of accruals and prepayments, but these were often incorrectly related to “customers” or “people” rather than accrued and prepaid subscriptions/amounts owing or paid in advance by members.

(c) There were many wholly correct answers to this part of the question. A number of candidates appear to have misinterpreted the question and provided answers “club” or “society”.

(d) Most candidates earned mark on this question. Some candidates earned more marks naming the account than stating whether the item was debit or credit.

(e) Candidates who had a thorough knowledge of income statements were able to earn marks. The cost of sales was the difference between the revenue and the gross profit. The purchases could be calculated from the information at the start of the question ($2480 - $200 + $220) and the closing inventory could then be inserted as a missing figure.

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Question 5

(a) Candidates were expected to understand that the reason why some items in the cash book do not appear on a bank statement is a result of timing differences.

(b) A cash book had to be updated with items which appeared only on the bank statement. It was not necessary to copy out all the cash book shown in the question – it was only necessary to enter those items which appeared on the bank statement but not in the cash book. Three items appeared on the bank statement but not in the cash book so these had to be entered. The cash book then had to be balanced and the balance carried down. Once again attention to details was important.

(c) A bank reconciliation statement had to be prepared to explain the difference between the balance on the bank statement and the updated cash book balance. A bank reconciliation should be shown in statement format as it is not an account. It is possible to start with either the balance shown on the statement or the updated balance in the cash book.

Candidates had to recognise that both the cash book and the bank statement had overdrawn balance. Starting with an overdrawn balance on the bank statement, cheques not yet presented had to be added as the cash book would show a higher overdraft. The cash book would show a lower overdraft because of amounts not yet credited so these had to be added to the overdraft shown on the bank statement.

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Question 6

(a) Candidates were required to prepare the appropriation account of a partnership. Many candidates earned high marks. A few incorrectly included the balances of the capital and current accounts and the drawings. All the items should have been clearly labelled and should have included the name of the partner. For example, it was not sufficient to put “interest on capital $2100” without showing the split between the partners. Similarly, “Salary $12 000” was not adequate without the name of the partner.

(b) A current account for one of the partners had to be prepared, using the given figures for opening balance and drawings and the appropriate figures from (a). The amounts to which the partner had become entitled should have been credited and the drawings and interest on drawings should have been debited together with the opening debit balance. The account should have been balanced and the balance brought down on 1 January 2014. Once again attention to details was important.

(c) Capital employed represents the total funds being used in the business (non-current assets + current assets – current liabilities). Many candidates successfully calculated $210 000 and then incorrectly deduced the long term loan.

It was possible to calculate the capital employed using the closing balances on the partners’ capital and current accounts and adding the long term loan. The closing balance on the current account of Belle ($10 000) had first to be calculated before the capital employed could be calculated.

(d) Using the capital employed calculated in (c) and the profit for the year of $72 900 candidates were required to calculate the return on capital employed (ROCE). The question asked for the answer correct to two decimal places.

(e) A calculation of the correct profit for the year was required. The original profit ($72 900) had to be reduced by $36 000 (the difference between $51 000 and $15 000).
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General Comments

Question 1 consisted of ten multiple choice items covering topics across the whole syllabus.

In Question 2 candidates were given some short answer questions, requiring knowledge of assets, liabilities and capital, basic double entry and banking terminology.

Question 3 also contained short questions on the division of the ledger, different types of organisations and limited companies.

The main topics in Question 4 were the preparation of a trial balance and depreciation of non-current assets.

Question 5 required candidates to complete sentences relating to a manufacturing business and then to prepare a manufacturing account and an income statement.

In Question 6 candidates were required to understand the difference between capital and revenue expenditure, prepare a statement of financial position and to calculate and comment on the liquidity of a business.
Comments on Specific Questions

Question 1

Items (b), (g) and (j) were especially well-answered.

In Item (a) it was anticipated that candidates would understand the role of an accountant.

There was a variety of responses to item (d). Candidates were told that the bank reconciliation statement was prepared starting with the cash book balance. In this case the bank error overstating the charges must be deducted and the cheque not presented must be added.

Item (f) proved a little difficult for some candidates. It was expected that candidates would be able to calculate that the rent payable for the year was $1050 – the amount paid for the year minus the rent paid for the previous year and minus the rent paid for the following year.

Question 2

(a) It was clear that candidates were aware of the meaning of the terms assets, liabilities and capital, but many could not express themselves coherently. Simply providing a list of examples was not regarded as adequate. Assets include anything owned by a business but also anything owed to a business. Acceptable explanations were usually provided for liabilities. In the explanation of capital, reference should have been made to funds/resources/money invested by the owner.

(b) The table to classify items as assets and liabilities was often completed perfectly.

(c) Completing a table to state the double entry for various transactions should have been a straightforward task. Those candidates with a thorough knowledge of double entry earned high marks.

The credit entry for the purchase of plant and equipment should have been split equally between the bank and ABC Finance. Interest on loan is debited to an interest paid account and not the actual loan account. When part of the loan was repaid it would be debited to ABC Finance. The depreciation for the year should be credited to the provision for depreciation account and debited to the income statement. Many candidates incorrectly made entries in the depreciation account and the asset account.

(d) This required the calculation of the annual rate of interest on a loan, and was often correctly answered. This should have been calculated by taking $210 as a percentage of the amount borrowed ($3000).

(e) Candidates were required to explain how a bank overdraft can arise. This required a basic statement to the effect that more had been withdrawn from the bank account than the funds available in the account. It was not necessary to explain how to reduce an overdraft or the effect of interest charges on the business.

(f) Many candidates correctly identified the cheque referred to in this question as an unpresented cheque. There were some incorrect references to dishonoured and uncredited cheques.
Question 3

(a) Most candidates were able to name a ledger account which may appear in the nominal (general) ledger and to name another type of ledger a business may maintain. Whilst a cash book may contain two ledger accounts it is not itself a ledger account.

Candidates are reminded that it is important to read the question carefully before writing their answer. This would have prevented some incorrect responses being provided.

Satisfactory responses were also provided to explain why dividing the ledger into sections makes it easier to use. Reducing fraud and reducing errors were not regarded as acceptable responses.

(b) Candidates were provided with four items which may appear in financial statements and were required to name the statement and the type of organisation to which the item related.

The types of organisation were usually correctly identified. A definite type of organisation was required and responses such as “partnership company” were not acceptable. Candidates were expected to apply International Accounting Terminology and use terms such as “statement of financial position” and “income statement”.

(c) Two differences between debentures and ordinary shares were required. In this type of question comparative statements are required. Marks were not awarded for two statements, which, while factually correct were not comparative statements. For example “debentures are loans and shares get dividends” is a true statement but would not earn marks. In addition, it is important to make positive statements. For example a statement “ordinary shares receive dividend, but debentures do not” did not attract marks as the last phrase does not say anything positive about debentures.

(d) An explanation was required of why a limited company might decide not to distribute all of its profit for the year in the form of a dividend. It is important to appreciate that profit is not necessarily in the form of money, so responses involving payment of expenses, loan interest and dividends were not acceptable. Answers should have mentioned reinvestment in the business or the fact that there was not enough cash to pay dividend.

Question 4

(a) The majority of candidates offered the correct response ‘Suspense’, to name the account opened to enable a trial balance to balance.

(b) Most candidates successfully prepared a corrected trial balance. Careful copying of the given figures would have meant that some marks were not lost needlessly. There are several mnemonics which candidates can use to help them remember the type of accounts which go in the two columns of a trial balance. Making use of one of these would have ensured that fees and provision for depreciation were correctly entered in the credit column.

(c) Candidates were required to explain why the capital account balance in the trial balance was the opening balance on the account. Candidates need to appreciate that the trial balance is prepared before the financial statements and so the capital account will, necessarily, show the balance at the beginning of the financial year. This is not necessarily what the owner invested at the start of the business.

(d) The type of business for which the trial balance had been prepared was a service business. Candidates were expected to realise that the trial balance did not include revenue and purchases but did include fees.
This question required candidates to calculate the depreciation charge for the year based on the reducing (diminishing) balance method. A common error was to calculate 20% of the cost price rather than 20% of the net book value. Some candidates successfully calculated the net book value ($5440) but then did not continue to calculate the depreciation on this figure.

Candidates were required to prepare the provision for depreciation account. The opening balance was given in the trial balance. The depreciation for the year (calculated in (e)) should have been credited and transferred to the income statement. The account should have been balanced and the balance brought down. Candidates are reminded of the importance of correct descriptions in ledger accounts.

Question 5

(a) Many fully correct responses were given to this task of completing sentences concerning a manufacturing business.

(b)(i) The preparation of a manufacturing account provided an opportunity for the well-prepared candidate to earn good marks and there were many excellent answers. Candidates are reminded of the importance of attention to detail. Figures such as cost of materials used, prime cost and cost of production should be accompanied by a description. The overheads should only include factory overheads: direct factory wages is part of prime cost rather than an overhead. Office and selling expenses are not included in a manufacturing account. The purpose of a manufacturing account is to calculate the cost of production: revenue should not be included in this account.

(ii) The preparation of an income statement for a manufacturing business should have also provided the opportunity to earn marks. Many candidates did not include the cost of production calculated in (b)(i). Items such as purchases of raw material, carriage inwards on raw materials, and factory overheads should not be included in an income statement. Candidates are reminded of the requirement to use terms such as “inventory”, “revenue” and “profit for the year”.

(c) Candidates were required to select one indirect cost from the list of balances provided earlier in the question. Many candidates correctly selected a suitable example. Direct costs such as materials used and wages of factory workers were not acceptable.

(d) Candidates were asked to suggest two items which may be included in the total of the administration and selling costs. In this type of question it is important to ensure that a specific example is provided. “Salaries”, “insurance” and “rent” were not regarded as acceptable as they could equally apply to both the office and the factory. Adding the word “office” would have meant that the marks were awarded.

Question 6

(a) An explanation of the difference between capital and revenue expenditure was required. There were many excellent responses. Most understood that capital expenditure is money spent on non-current assets and that it does not include the maintenance and repair of these assets. Candidates are reminded that where an explanation is required a list of examples is not an adequate response.

(b) The completion of a table to classify five items as either capital or revenue expenditure was very well done.

(c) Candidates were required to select the current assets and current liabilities from a list of balances and to calculate the current ratio. Goodwill should not be included as a current asset. It was expected that candidates would recognise a credit balance at bank is a current liability. Full marks could only be earned if the calculation was correct to two decimal places and was expressed as a ratio.

(d) A statement of financial position had to be prepared. Well-prepared candidates earned high marks. It was expected that candidates would understand that inventory should always be valued at the lower of cost and selling price and that rent accrued of $3000 should be included as a current liability. The cost of the motor vehicle had to be reduced by $800. The cost of the fixtures and fittings had to be increased by $1000.
The trader’s estimate of goodwill should not have been included in the books of the business.

Candidates should understand that a statement of financial position must have two matching totals. Higher marks could be earned by inserting a second total to represent the owner’s capital.

(e) Using the statement of financial position prepared in (d), candidates were required to calculate the current ratio. There were many correct responses. Candidates were expected to calculate the ratio to two decimal places and to express it in ratio format.

(f) The liquidity of the business had to be commented on. To earn marks on this question it was necessary to consider the change in the ratios and to appreciate that the business was short of liquid funds. General comments about the “ideal ratio” were not an adequate response to the question being asked. The emphasis should have been on the relationship between the current assets (and liquid assets) and the current liabilities and not on assets and liabilities in general.
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(a) Candidates were required to prepare the appropriation account of a partnership. Many candidates earned high marks. A few incorrectly included the balances of the capital and current accounts and the drawings. All the items should have been clearly labelled and should have included the name of the partner. For example, it was not sufficient to put “interest on capital $2100” without showing the split between the partners. Similarly, “Salary $12 000” was not adequate without the name of the partner.

(b) A current account for one of the partners had to be prepared, using the given figures for opening balance and drawings and the appropriate figures from (a). The amounts to which the partner had become entitled should have been credited and the drawings and interest on drawings should have been debited together with the opening debit balance. The account should have been balanced and the balance brought down on 1 January 2014. Once again attention to details was important.

(c) Capital employed represents the total funds being used in the business (non-current assets + current assets – current liabilities). Many candidates successfully calculated $210 000 and then incorrectly deduced the long term loan.

It was possible to calculate the capital employed using the closing balances on the partners’ capital and current accounts and adding the long term loan. The closing balance on the current account of Belle ($10 000) had first to be calculated before the capital employed could be calculated.

(d) Using the capital employed calculated in (c) and the profit for the year of $72 900 candidates were required to calculate the return on capital employed (ROCE). The question asked for the answer correct to two decimal places.

(e) A calculation of the correct profit for the year was required. The original profit ($72 900) had to be reduced by $36 000 (the difference between $51 00 and $15 000).
Key Messages

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary in order to achieve a pass grade.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Candidates should read through each question very carefully before attempting an answer.

Where a column is headed with a dollar sign, candidates should realise that an amount of money is required rather than just a tick. It should be obvious that dividend on shares is unlikely to exceed the amount of issued share capital.

The spaces provided in the question paper for candidates’ answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate that this has been done. For example, a note “please refer to page....” or “continued on page...” would ensure that this additional work is not overlooked.

Candidates are reminded that the use of inappropriate abbreviations should be avoided. Abbreviations such as “bbd” for “balance brought down”, “PC” for “prime cost”, “GP” for “gross profit”, and “OS” for “ordinary share capital” are not acceptable.

Candidates are reminded that they are expected to use International Accounting Terminology.

The following comments should be read in conjunction with the question paper and the published mark scheme

General Comments

In Question 1 candidates were presented with information relating to a manufacturing business and were required to prepare a manufacturing account and the trading account section of an income statement.

The first sections of Question 2 concentrated on adjustments to expense accounts and the application of accounting principles. The last sections were on the topic of capital and revenue receipts and expenditure.

Question 3 was on the topic of depreciation. After answering some short answer questions on the different methods of depreciation, candidates were required to prepare accounts for an asset, provision for depreciation and disposal.

The topic of Question 4 was limited liability companies. Candidates were required to calculate debenture interest and share dividends and the retained profit for the year. An extract from a statement of financial position was also required. Related theory questions were also included.

In Question 5 candidates were required to state why a suspense account was opened and to prepare journal entries to correct various errors. A table had to be completed to show the effect on the profit of the errors.
The calculation and interpretation of ratios was the subject of **Question 6**. Candidates were required to calculate two profitability ratios and two liquidity ratios and to answer related theory questions.

**Comments on Specific Questions**

**Question 1**

**(a)** Using information provided, candidates were required to prepare a manufacturing account. A thorough knowledge of the format of a manufacturing enabled candidates to earn high marks. The purpose of a manufacturing account is to calculate the cost of production. This requires the calculation of the prime cost to which the factory overheads must be added. The resulting figure, after adjustment for work in progress, is the cost of production.

A common error was to include the direct wages and the direct expenses in the factory overheads. It was expected that candidates would be able to correctly calculate the factory rates and insurance and the depreciation of plant and machinery and loose tools for the year. The total factory overheads should be added to the prime cost and then the resulting figure adjusted for work in progress.

Candidates are reminded of the importance of labelling the prime cost and the cost of production and of using the correct terminology.

**(b)** An income statement (trading account section) had to be prepared to calculate the gross profit. It was expected that candidates would understand that this is basically the revenue less the cost of sales. The cost of production (calculated in **(a)** is included in the calculation of the cost of sales, but factory expenses should not be included in an income statement. An understanding of a trading account ensured that items were presented in the correct order. For example, the closing inventory should be the last item in the calculation of cost of sales and purchases returns should be deducted from the purchases.

**Question 2**

**(a)** A ledger account for stationery had to be prepared. The opening balance and the purchases during the year should have been debited and the amount taken for personal use should have been credited. The closing balance should have been credited and carried down as a debit balance; the amount of stationery used during the year ($394) should have been transferred to the income statement.

Candidates are reminded that it is important to include the correct date (including year), detail and amount for each entry in a ledger account. Apart from the balances, the detail should be the name of the account in which the double entry will appear: “Cheque” and “personal use” are not the names of accounts.

**(b)** An explanation was required of how the business entity principle was applied in the stationery account. This principle regards the business owner as being separate from the business. Stationery for personal use was, therefore, transferred from the stationery account to the drawings account.

**(c)** A ledger account had to be prepared for rent and rates. There was an opening balance on each side of the account. The actual amounts paid should have been debited; no adjustment should have been made to these amounts. The rates prepaid ($570) should have been credited and carried down as a debit balance. The expense for the year ($5400) should have been transferred to the income statement.

Once again, attention to dates, details and amounts resulted in candidates earning the available marks.

**(d)** An explanation was required of how the accruals (matching) principle was applied in the rent and rates account. This principle requires that the costs for the year are matched against the revenue of the same period. Only the rent and rates relating to the current year were transferred to the income statement.
Candidates were asked to define the terms capital receipts, capital expenditure, revenue receipts and revenue expenditure. When definitions are required, it is not sufficient to provide a list of examples.

Many candidates were able to provide acceptable definitions of capital expenditure and revenue expenditure. Capital receipts are amounts received which do not form part of the day-to-day trading activities, and include more than receipts from the sale of non-current assets. Revenue receipts are amounts received from the day-to-day trading activities and other items of income.

A table had to be completed to show the effect on non-current assets and profit for the year of incorrectly classifying revenue expenditure. There were many correct responses.

Question 3

(a) Candidates were required to describe the straight line method of depreciation and to state the circumstances when this method may be used. When a description is required simply presenting a formula is not regarded as adequate. A thorough understanding of depreciation methods would have allowed candidates to explain that this is a method whereby the same amount of depreciation is charged each year. This method is used where each year is expected to benefit equally from, the use of the asset.

(b) A description of the reducing (diminishing) balance method of depreciation was required together with a statement of the circumstances when this method may be used. Once again, a formula alone was not acceptable. Candidates were expected to explain that this uses the same percentage rate of depreciation each year, but it is calculated on the book value of the asset. It is used where the greater benefits from the use of the asset will be gained in the early years of its life.

(c) The most appropriate method of depreciation for three non-current assets had to be selected. Candidates reading the question carefully realised that the methods referred to were the straight line and the reducing (diminishing) balance methods.

(d) Candidates were required to describe revaluation method of depreciation and to state the circumstances when this method may be used. Once again, a description rather than a formula was required. Basically, using this method, the asset is revalued at the end of each year and the difference between the opening and closing value is the depreciation for the year. This is used where it is impractical or difficult to maintain detailed records of the asset.

(e) Using information provided three ledger accounts had to be prepared – an equipment account, a provision for depreciation account and a disposal account. A thorough understanding of the double entry was required. It was expected that candidates would understand that an asset account can only have a debit balance and the provision for depreciation is always a credit balance. The use of correct details within the accounts ensured that candidates would earn the available marks: words such as “cost”, “selling price” and “purchased” were not acceptable.

The accumulated depreciation on the asset sold should have been $800 (representing two years’ depreciation). The depreciation for the year on the new equipment should have been $340 (representing depreciation for the six months’ of ownership).

Question 4

(a) It was expected that this would be a reasonably straightforward question. Many candidates correctly calculated the debenture interest and the preference share dividend. Those candidates who read the question carefully correctly calculated the ordinary share dividend based on 140 000 shares of $0.50 each.

(b) Candidates were required to state why the company made a transfer to general reserve. This is done to indicate that part of the profit is for long-term used within the company and is not available for distribution. It must be appreciated that the general reserve does not represent money.

(c) The profit retained in the year had to be calculated. As only a calculation was required, format and wording were not important. Many candidates correctly deducted the debenture interest and share
dividend (calculated in (a)) from the profit for the year. The retained profit from previous years should not have been included in the calculation.

(d) An extract from a statement of financial position, showing the capital and reserves, was required. Candidates should have listed the ordinary shares, the preference shares, the general reserve and the retained profit. It is important to use correct wording. For example “ordinary” is not adequate. The retained profit should have been the retained profit brought forward from the previous year plus the profit retained in the year calculated in (c)).

(e) The section of the statement of financial position in which debentures would appear had to be named. The correct response was “non-current liabilities”.

(f) Candidates were required to state the amount of debenture interest and the section of the statement of financial position in which it would appear. An amount of $750 would appear in the current liabilities.

Question 5

(a) Two reasons for opening a suspense account were required. A suspense account is opened to balance a trial balance to enable draft financial statements to be prepared. It does not check for errors or prevent fraud.

(b) Candidates were required to prepare journal entries to correct four errors. Each entry should have been immediately followed by a narrative stating why the entry was being made (for example “correction of error………..”).

Workings in the form of “T” accounts may have assisted candidates to determine the entries which were required. The first error should have been corrected by debiting suspense and crediting rent with $270. The second error involved crediting wages and debiting drawings. To correct the third error, discount allowed should have been debited and suspense credited. The final error required a debit to Mona of $200, a debit to suspense of $1800 and credit to Amina of $2000.

(c) A table had to be completed to show the effect on the profit of four errors. Two of the columns were headed with a dollar sign, so it should have been obvious that an amount of money was required, rather than a tick.

Question 6

(a) Many candidates successfully calculated the percentage of gross profit to revenue and the profit for the year to revenue. When calculating the current ratio and the quick ratio the current liabilities should have included the short term loan.

(b) Two reasons for the change in the percentage of gross profit to revenue were required. Common correct responses included selling goods at higher prices and purchasing goods at lower prices. Candidates were expected to appreciate that selling a higher quantity or purchasing a lower quantity will not affect the gross profit margin.

(c) Candidates were required to state, giving a reason, the year in which the trader had better control of the expenses. Using their answer to (a), most correctly identified 2013 as the year. It was necessary to explain that the percentage of profit for the year was lower in 2014 so the percentage of expenses was higher. Comments on numerical values of profit and expenses were unacceptable as no monetary values were known for 2013.

(d) A table had to be completed to indicate the effect of three transactions on the current ratio. Candidates with an understanding of the effect of transactions on the current assets and current liabilities were able to use this knowledge to determine the effect on the current ratio.

(e) Candidates were required to state, giving a reason, whether the trader would be satisfied with the change in the liquidity position. References to “benchmarks” were not required.
Key Messages

All the questions on this structured examination paper were compulsory and covered various topics on the syllabus. It was expected that candidates would be able to attempt all the questions.

It is important to remember that a question can be set on any section of the syllabus and a thorough knowledge of all sections of the syllabus is necessary for good performance.

Candidates are advised to work through questions on past examination papers and appropriate exercises in textbooks.

Candidates are advised to provide supporting calculations. If calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates should read through each question very carefully before attempting an answer. For example, some candidates did not follow an instruction to round up the payment period for trade payables to the next whole day and to calculate ratios correct to two decimal places.

It is important to read through a question carefully before attempting an answer. Marks cannot be awarded if a candidate provides a factually correct statement which is not the answer to the question being asked.

Candidates are advised to think carefully about the answers they provide. Where a column is headed with a dollar sign, candidates should realise that an amount of money is required rather than just a tick. It should be obvious that the closing inventory would not exceed the total of the opening inventory and the purchases.

The spaces provided in the question paper for candidates’ answers should be adequate. Sometimes it may be necessary for a candidate to cross out part or all of the answer and provide another answer elsewhere on the question paper. It is important that candidates indicate that this has been done. For example, a note “please refer to page....” or “continued on page....” would ensure that this additional work is not overlooked.

Candidates should avoid use of inappropriate abbreviations such as “bbd” for “balance brought down”, “GP” for “gross profit”, “P” for “profit for the year” and “I C” for “interest on capital”.

Candidates are reminded that they are expected to use International Accounting Terminology. Old terminology such as “stock” instead of “inventory” and “net profit” instead of “profit for the year” marks should not be used.

General Comments

Question 1 required candidates to write up a cash book and ledger accounts. There were also sections on the identification of accounting principles.

In Question 2 candidates had to identify the books of prime entry in which transactions would be entered. Candidates then had to complete a theory question on entries in a purchases ledger control account. Candidates were also asked how a supplier may use the financial statements of a potential credit customer.

The main topic of Question 3 was partnerships. Candidates had to prepare the current account of a partner. Theory questions on partners’ ledger accounts were also included. The final sections of the question concentrated on the collection period for trade receivables.
Question 4 was based on the accounts of non-trading organisations. Candidates had to prepare a subscriptions account and an income and expenditure account. The question was completed theory questions on the accumulated fund of a club.

In Question 5 candidates had to prepare the trading section of an income statement to calculate missing inventory. A calculation of a provision for doubtful debts and journal entries to record the creation of the provision and writing off a bad debt followed. The question was completed by related theory questions on accounting principles.

Question 6 required candidates to state entries required to correct some errors and identify the effect of these errors on the draft profit. Candidates were then required to calculate two profitability ratios and answer related theory questions.

The following comments should be read in conjunction with the question paper and the published mark scheme.

Comments on Specific Questions

Question 1

(a) Candidates were expected to realise that only transactions involving the movement of money are recorded in the cash book. Credit sales and purchases and returns should not be recorded in the cash book. It is important that all entries in a cash book are dated and have a correct description. The description should be the name of the account where the double entry is to be made. For example, “dishonoured cheque” and “personal use” are not the names of accounts. Candidates were expected to correctly balance the cash and bank columns and bringing down the balances

(b) Candidates were required to write up the personal accounts of a customer and a supplier. It is important to show the correct date, details and amount for each entry. To earn full marks for the supplier’s account it was necessary to understand that the net amount should be entered for the purchase and the returns. Trade discount should never be entered in the ledger.

(c) Most candidates correctly identified the principle of realisation.

(d) Most candidates correctly identified the principle of going concern.

Question 2

(a) A thorough knowledge of basic book-keeping was necessary to enable candidates to earn marks when naming the source of information for four items in a sales ledger control account. Despite the heading ‘Book or prime (original) entry’ shown in the table, some candidates provided the name of an account.

(b) Candidates were asked to state two reasons why a debit balance may occur on the purchases ledger control account. Most candidates provided acceptable reasons, with overpayment and prepayment being the most common responses.

(c) Candidates were required to complete a table to indicate where various items would appear in a purchases ledger control account. A thorough knowledge of double entry book-keeping would have helped candidates to select the correct answers. It was expected that candidates would understand that items which do not appear in the account of a credit supplier will not appear in a purchases ledger control account.

(d) The payment period for trade payables had to be calculated. Most candidates produced the correct answer. Candidates are reminded that the answer should be expressed as a number of days, not a percentage and not as an amount of money.

(e) Candidates were required to suggest a reason (in addition to the payment period for trade payables) why a credit supplier would be interested in the financial statements of a potential customer. There were many correct responses.
Question 3

(a) Candidates were required to calculate the residual profit/loss and then divide this between then partners. Interest on drawings should have been added to the profit for the year and interest on capital and salary should have been deducted.

(b) Candidates were required to prepare and balance the current account of a partner. The share of the loss (calculated in (a)) should have been included on the debit side. Once again, attention should have been paid to dates (including the years), details and figures. The correct description for the transfer from the capital account was “capital” and not “transfer”. A number of candidates incorrectly included the balance of the capital account. Where the account was presented in three column running balance format, the balance column should have been updated after each entry.

(c) To gain marks on this section, candidates had to understand that a debit balance on a partner’s current account arises when the drawings and interest on drawings (and share of loss where appropriate) exceed the interest on capital (and share of profit where appropriate). A response of “too much drawings” was not regarded as adequate.

(d) Candidates were expected to appreciate that maintaining both a capital and a current account for each partner makes it easier to see the profit retained by each partner and to calculate their interest on capital.

(e) Candidates were required to comment on data relating to the collection period for trade receivables. The collection period increased in the second year, but in both years it was within the period of credit allowed. Speculation on liquidity problems was inappropriate as there was no evidence to support this.

(f) Most candidates offered acceptable suggestions for improving the collection period.

Question 4

(a) A subscriptions account was required. Once again, attention to dates (including the years), details and amounts ensured good responses from candidates. The account had two opening balances – subscriptions accrued and subscriptions prepaid. The amount received during the year should have been credited (the double entry being in the bank account). The subscriptions for the year could be calculated from the data as $9600 (100 members x $96) and this should have been debited and transferred to the income and expenditure account. The closing accruals should have been credited and brought down as a debit balance: the closing prepayment should have been debited and brought down as a credit balance.

(b) Candidates were required to prepare an income and expenditure account. Most candidates prepared an account in vertical format, but horizontal format was equally acceptable. Candidates must remember that in a horizontal account the expenditure is debited and the income credited. Candidates need to take care when adjusting expenses for accruals and prepayments. They should remember that the income and expenses of any fund-raising activity during the year should be set against each other.

(c) The total accumulated fund at the year-end had to be stated – this represented the opening balance less the deficit calculated in (b).

(d) An explanation of why the club could not distribute the accumulated fund to members was required. Candidates must appreciate that the members of the club are not owners and have not invested any capital so there can be no return on an investment.

Question 5

(a) Candidates were required to prepare the trading section of the income statement and to calculate the value of missing inventory. Some candidates correctly calculated total closing inventory but did not show the split between the inventory on the premises and the missing inventory.

(b) Candidates had to calculate the provision for doubtful debts. This involved calculating 3% of the trade receivables (after deducting the bad debt still to be written off).
(c) Journal entries were required to write off the bad debt ($150) and to create a provision for doubtful debts (using the provision calculated in (b)). Narratives were required to be shown.

(d) Candidates had to explain how the creation of the provision for doubtful debts is an application evidence of the principle of prudence. Many candidates correctly stated that this ensures that the profit and the trade receivables are not overstated. No marks were awarded for statements about avoiding "overstating or understating profit"

(e) Candidates had to explain how the creation of a provision for doubtful debts is an application of the matching principle. This requires the revenue for the accounting period to be matched against the costs of the same period. A provision for doubtful debts ensures that the revenue lost from credit sales is matched against the period in which the sales were made.

Question 6

(a) The correct account names were required. "Invoice", "credit note" and "supplier" are not the names of accounts. Workings in the form of "T" accounts may have assisted candidates to determine the entries which were required.

(b) A table had to be completed to indicate how the errors affected the profit for the year. A thorough knowledge of income statements was required for candidates to earn high marks.

(c) Candidates were required to calculate the percentage of gross profit to revenue and the percentage of profit for the year to revenue. There were many wholly correct responses.

(d) One reason for the change in the gross profit percentage was required. Common correct responses included selling goods at higher prices and purchasing goods at lower prices. Candidates were expected to appreciate that selling a higher quantity or purchasing a lower quantity will not affect the gross profit margin.

(e) Using their answers to (c), candidates were required to state whether the efficiency of the business had increased or decreased and to give a reason. If the percentage of profit for the year to revenue decreases then the efficiency also decreases as the percentage of expenses to revenue increases.
ACCOUNTING

Key Messages

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In Question 1 candidates were presented with information relating to a manufacturing business and were required to prepare a manufacturing account and the trading account section of an income statement.

The first sections of Question 2 concentrated on adjustments to expense accounts and the application of accounting principles. The last sections were on the topic of capital and revenue receipts and expenditure.

Question 3 was on the topic of depreciation. After answering some short answer questions on the different methods of depreciation, candidates were required to prepare accounts for an asset, provision for depreciation and disposal.

The topic of Question 4 was limited liability companies. Candidates were required to calculate debenture interest and share dividends and the retained profit for the year. An extract from a statement of financial position was also required. Related theory questions were also included.

In Question 5 candidates were required to state why a suspense account was opened and to prepare journal entries to correct various errors. A table had to be completed to show the effect on the profit of the errors.
The calculation and interpretation of ratios was the subject of **Question 6**. Candidates were required to calculate two profitability ratios and two liquidity ratios and to answer related theory questions.

**Comments on Specific Questions**

**Question 1**

(a) Using information provided, candidates were required to prepare a manufacturing account. A thorough knowledge of the format of a manufacturing enabled candidates to earn high marks. The purpose of a manufacturing account is to calculate the cost of production. This requires the calculation of the prime cost to which the factory overheads must be added. The resulting figure, after adjustment for work in progress, is the cost of production.

A common error was to include the direct wages and the direct expenses in the factory overheads. It was expected that candidates would be able to correctly calculate the factory rates and insurance and the depreciation of plant and machinery and loose tools for the year. The total factory overheads should be added to the prime cost and then the resulting figure adjusted for work in progress.

Candidates are reminded of the importance of labelling the prime cost and the cost of production and of using the correct terminology.

(b) An income statement (trading account section) had to be prepared to calculate the gross profit. It was expected that candidates would understand that this is basically the revenue less the cost of sales. The cost of production (calculated in (a)) is included in the calculation of the cost of sales, but factory expenses should not be included in an income statement. An understanding of a trading account ensured that items were presented in the correct order. For example, the closing inventory should be the last item in the calculation of cost of sales and purchases returns should be deducted from the purchases.

**Question 2**

(a) A ledger account for stationery had to be prepared. The opening balance and the purchases during the year should have been debited and the amount taken for personal use should have been credited. The closing balance should have been credited and carried down as a debit balance; the amount of stationery used during the year ($394) should have been transferred to the income statement.

Candidates are reminded that it is important to include the correct date (including year), detail and amount for each entry in a ledger account. Apart from the balances, the detail should be the name of the account in which the double entry will appear: “Cheque” and “personal use” are not the names of accounts.

(b) An explanation was required of how the business entity principle was applied in the stationery account. This principle regards the business owner as being separate from the business. Stationery for personal use was, therefore, transferred from the stationery account to the drawings account.

(c) A ledger account had to be prepared for rent and rates. There was an opening balance on each side of the account. The actual amounts paid should have been debited: no adjustment should have been made to these amounts. The rates prepaid ($570) should have been credited and carried down as a debit balance. The expense for the year ($5400) should have been transferred to the income statement.

Once again, attention to dates, details and amounts resulted in candidates earning the available marks.

(d) An explanation was required of how the accruals (matching) principle was applied in the rent and rates account. This principle requires that the costs for the year are matched against the revenue of the same period. Only the rent and rates relating to the current year were transferred to the income statement.
Candidates were asked to define the terms capital receipts, capital expenditure, revenue receipts and revenue expenditure. When definitions are required, it is not sufficient to provide a list of examples.

Many candidates were able to provide acceptable definitions of capital expenditure and revenue expenditure. Capital receipts are amounts received which do not form part of the day-to-day trading activities, and include more than receipts from the sale of non-current assets. Revenue receipts are amounts received from the day-to-day trading activities and other items of income.

A table had to be completed to show the effect on non-current assets and profit for the year of incorrectly classifying revenue expenditure. There were many correct responses.

**Question 3**

(a) Candidates were required to describe the straight line method of depreciation and to state the circumstances when this method may be used. When a description is required simply presenting a formula is not regarded as adequate. A thorough understanding of depreciation methods would have allowed candidates to explain that this is a method whereby the same amount of depreciation is charged each year. This method is used where each year is expected to benefit equally from, the use of the asset.

(b) A description of the reducing (diminishing) balance method of depreciation was required together with a statement of the circumstances when this method may be used. Once again, a formula alone was not acceptable. Candidates were expected to explain that this uses the same percentage rate of depreciation each year, but it is calculated on the book value of the asset. It is used where the greater benefits from the use of the asset will be gained in the early years of its life.

(c) The most appropriate method of depreciation for three non-current assets had to be selected. Candidates reading the question carefully realised that that the methods referred to were the straight line and the reducing (diminishing) balance methods.

(d) Candidates were required to describe revaluation method of depreciation and to state the circumstances when this method may be used. Once again, a description rather than a formula was required. Basically, using this method, the asset is revalued at the end of each year and the difference between the opening and closing value is the depreciation for the year. This is used where it is impractical or difficult to maintain detailed records of the asset.

(e) Using information provided three ledger accounts had to be prepared – an equipment account, a provision for depreciation account and a disposal account. A thorough understanding of the double entry was required. It was expected that candidates would understand that an asset account can only have a debit balance and the provision for depreciation is always a credit balance. The use of correct details within the accounts ensured that candidates would earn the available marks: words such as “cost”, “selling price” and “purchased” were not acceptable.

The accumulated depreciation on the asset sold should have been $800 (representing two years' depreciation). The depreciation for the year on the new equipment should have been $340 (representing depreciation for the six months' of ownership).

**Question 4**

(a) It was expected that this would be a reasonably straightforward question. Many candidates correctly calculated the debenture interest and the preference share dividend. Those candidates who read the question carefully correctly calculated the ordinary share divided based on 140,000 shares of $0.50 each.

(b) Candidates were required to state why the company made a transfer to general reserve. This is done to indicate that part of the profit is for long-term used within the company and is not available for distribution. It must be appreciated that the general reserve does not represent money.

(c) The profit retained in the year had to be calculated. As only a calculation was required, format and wording were not important. Many candidates correctly deducted the debenture interest and share
dividend (calculated in (a)) from the profit for the year. The retained profit from previous years should not have been included in the calculation.

(d) An extract from a statement of financial position, showing the capital and reserves, was required. Candidates should have listed the ordinary shares, the preference shares, the general reserve and the retained profit. It is important to use correct wording. For example “ordinary” is not adequate. The retained profit should have been the retained profit brought forward from the previous year plus the profit retained in the year calculated in (c)).

(e) The section of the statement of financial position in which debentures would appear had to be named. The correct response was “non-current liabilities”.

(f) Candidates were required to state the amount of debenture interest and the section of the statement of financial position in which it would appear. An amount of $750 would appear in the current liabilities.

Question 5

(a) Two reasons for opening a suspense account were required. A suspense account is opened to balance a trial balance to enable draft financial statements to be prepared. It does not check for errors or prevent fraud.

(b) Candidates were required to prepare journal entries to correct four errors. Each entry should have been immediately followed by a narrative stating why the entry was being made (for example “correction of error………..”).

Workings in the form of “T” accounts may have assisted candidates to determine the entries which were required. The first error should have been corrected by debiting suspense and crediting rent with $270. The second error involved crediting wages and debiting drawings. To correct the third error, discount allowed should have been debited and suspense credited. The final error required a debit to Mona of $200, a debit to suspense of $1800 and credit to Amina of $2000.

(c) A table had to be completed to show the effect on the profit of four errors. Two of the columns were headed with a dollar sign, so it should have been obvious that an amount of money was required, rather than a tick.

Question 6

(a) Many candidates successfully calculated the percentage of gross profit to revenue and the profit for the year to revenue. When calculating the current ratio and the quick ratio the current liabilities should have included the short term loan.

(b) Two reasons for the change in the percentage of gross profit to revenue were required. Common correct responses included selling goods at higher prices and purchasing goods at lower prices. Candidates were expected to appreciate that selling a higher quantity or purchasing a lower quantity will not affect the gross profit margin.

(c) Candidates were required to state, giving a reason, the year in which the trader had better control of the expenses. Using their answer to (a), most correctly identified 2013 as the year. It was necessary to explain that the percentage of profit for the year was lower in 2014 so the percentage of expenses was higher. Comments on numerical values of profit and expenses were unacceptable as no monetary values were known for 2013.

(d) A table had to be completed to indicate the effect of three transactions on the current ratio. Candidates with an understanding of the effect of transactions on the current assets and current liabilities were able to use this knowledge to determine the effect on the current ratio.

(e) Candidates were required to state, giving a reason, whether the trader would be satisfied with the change in the liquidity position. References to “benchmarks” were not required.