

ACCOUNTING

Paper 0985/12
Multiple Choice

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

General comments

Many candidates possessed a good understanding of double-entry bookkeeping and were able to select the correct key to many items on the paper. However, some responses indicated that not all candidates had sufficient knowledge and understanding to answer questions which were not asked/worded in a way they had anticipated.

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.

To have a clear understanding of what is required, it is important for candidates to read through each item (question) very carefully before selecting an option on the answer sheet.

Comments on specific questions

Question 1

Candidates were required to identify that preparing financial statements each year helps a trader to make decisions about the future. The correct answer was **D**. Most candidates answered correctly.

Question 3

This question asked candidates to identify which account is not kept in the nominal ledger. The correct answer was **B**. The cash account is kept in the cash book. Some candidates incorrectly thought that the account for inventory is not kept in the nominal ledger.

Question 6

Candidates were required to identify an advantage of maintaining books of prime entry. The correct answer was **B**. Some candidates incorrectly thought that if books of prime entry are maintained, a trial balance can be extracted directly from them.

Question 8

This question covered the provision for doubtful debts. Candidates were required to identify the effect of omitting an adjustment to reduce the provision for doubtful debts. The correct answer was **D**. The provision would be overstated, so trade receivables, and therefore current assets, would be understated. Capital would also be understated as profit would be understated. Some candidates found this question challenging.

Question 9

Candidates were required to calculate the profit after correcting three stated errors. The corrected profit was $\$24\,500 + \$8\,000 - \$240 = \$32\,260$. The correct answer was **B**. Some candidates incorrectly only deducted \$120, rather than \$240, in respect of error 3.

Question 10

This question required candidates to calculate the bank balance in the cash book. The correct answer was **B**. Most candidates correctly identified that the cash book balance was \$1840, but some responses incorrectly identified this as a credit balance.

Question 11

This question required candidates to update the bank balance in the cash book. The correct balance was $(-\$1\,200 - \$100 + \$400 - \$60 =) -\$960$ i.e., a credit balance of \$960. The correct answer was **A**. Some candidates found this question challenging.

Question 15

This question covered depreciation. Candidates were required to identify which statements about depreciation were correct. The correct answer was **B**. Candidates who selected **D** may have misread statement 4 which referred to current assets.

Question 18

Candidates were required to identify the journal entry required to close the irrecoverable debts account at the year end. This account would have a debit balance and so a credit entry is required to close the account. The income statement is debited. The correct answer was **A**. Some candidates found this question challenging.

Question 19

Candidates were required to calculate the effect of two stated errors, on gross profit. Error 1 overstated gross profit by $(\$340 - \$180 =) \$160$. Error 2 understated gross profit by $(100 \times \$1 =) \100 . The overall effect is that gross profit was overstated by $(\$160 - \$100 =) \$60$. The correct answer was **A**. Some candidates found this calculation challenging.

Question 20

This question covered the topic of service businesses. Candidates were required to identify which of three items would be shown in the income statement of an accountancy business. The correct answer was **C**. Some candidates did not identify that there would be no gross profit shown.

Question 23

Candidates were required to identify which items should be entered in the appropriation account for a partnership. The correct answer was **A**. Some candidates incorrectly thought that either interest on partners' loans or drawings should also be included.

Question 25

This question covered the topic of financial statements. The correct answer was **C**. Most candidates answered correctly.

Question 31

This question required a calculation which some candidates found challenging. Gross profit = $\$68\,200 / 2 = \$34\,100$. Gross profit + other income – expenses = profit for the year. Hence expenses are $\$16\,785$. The correct answer was **B**.

Question 32

This question covered the topic of analysis and interpretation. The correct answer was **C**. Some candidates did not seem to realise that an increase in the quantity of goods sold would not lead to an increase in gross profit margin.

Question 34

Candidates were required to identify which accounting principle the accounting equation is based on. Assets (debit balances) = Capital (credit balance) plus Liabilities (credit balances). The correct answer was **A**. Some candidates seemed unable to relate the accounting equation to the relevant accounting principle.

Question 35

This question covered the topic of the quality of information contained in the financial statements. Information must be provided in a timely manner for it to be relevant. The correct answer was **B**. Some candidates found this question challenging.

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Key messages

Candidates should take time to review their answers. The calculation of key accounting ratios should indicate realistic business scenarios, such as trade receivables and payables turnover periods of approximating 30 days. Many candidates would invert the ratio, arriving at inaccurate answers that should act as a warning that there is an error somewhere in the calculation. Similarly, an overdrawn cash balance arising in the cash book is not a possible reflection of cash held and a common error, such as the opening cash balance entered on the wrong side of the cash book, should be immediately suspected and checked along with other potential incorrect entries.

General comments

Most candidates demonstrated good time management. However, there appeared to be rather more 'no responses' than observed previously, with a tendency to leave questions blank that attracted 1 or 2 marks only. Candidates should attempt all questions in order to attain their highest possible grades.

Comments on specific questions

Question 1

- (a) This question required candidates to update a three-column cashbook by selecting appropriate information from a range of cash and bank and credit transactions. It is important to ensure that opening balances are entered correctly. A common mistake was to enter cash as an overdrawn balance and also not identifying a credit bank balance correctly as an overdraft. The selection of the correct cash and bank transactions for entry into the cash book is critical. Most candidates recognised that entries for wages and stationery were straightforward payments, but too often credit transactions such as the purchase and return of goods on credit were recorded incorrectly into the cash book. These credit transactions will be recorded in the customer accounts in a subsequent part of the question. The use of correct account narratives and dates is essential and a reference to contra does not indicate whether the cash or bank account is receiving the transfer.
- (b) This was generally well answered with the recognition of the balance being a bank overdraft. This understanding however was not always supported by a correct entry in the cashbook in **part (a)** of the question. Weaker answers mentioned 'the balance from the previous month', 'the amount owing' or 'money in the bank'; these responses were either too vague or they were incorrect.
- (c) Candidates will be required, depending upon the question scenario, to update either a supplier or customer account. In this example, the credit transactions related to a customer account and there were many good answers. Often marks were missed by omitting discounts allowed upon bank receipts on the 14th September, information that should have been entered previously in the cash book in **1(a)**. Discounts received was an incorrect account name entered into this customer account and the omission of the sales returns entry was also a regular error.
- (d) A significant number of candidates arrived at a debit balance brought down in the customer account from **1(c)** and linked it correctly to the current assets section in the statement of financial position. Weaker answers given were 'trade receivables' or 'expenses'. If a credit balance brought down was arrived at in **1(c)** then the answer of current liabilities was accepted, but this indicated a lack of understanding of how customer and supplier account balances would appear in the financial statements.

Question 2

- (a) Incomplete records is a challenging part of the syllabus for the majority of candidates. The first part of this question requires the knowledge and application of the accounting equation to determine the opening and closing capitals. Once this is established, it is possible to determine the profit or loss made during the financial year. Surprisingly few candidates could apply the basic formula:

(assets – liabilities = capital), or would reverse the opening and closing balances after completing their calculations. This type of activity is often covered early in schemes of work and needs to be revisited when this topic is introduced.

- (b) The rationale for calculating the opening and closing capitals can now be used to arrive at a profit figure, after adjusting for adding any capital introduced and deducting any drawings made. Many candidates seemed unaware of this step or were unable to apply the framework provided. Entering the data given in the question and own answers from **part (a)** would allow 3 of the 4 marks to be gained.

- (c) (i) Once a profit figure is derived, the various information that will make-up the trading and income statements can be calculated. As the question requested a calculation for the credit purchases candidates could use a logic calculation or they could use a control account approach to arrive at an answer. Too often, opening and closing balances were mixed up for trade receivables and payables and taking the total receipts from customers and deducting payments to suppliers demonstrated the lack of understanding of the necessary adjustments required. The additional adjustment of deducting drawings from purchases was missed in many answers.

- (ii) The calculation to total sales was answered marginally better as the cash sales of \$21000 was added correctly and this gave access to the own figure mark for total sales. For many candidates, the sequence of steps required to produce accounting statements from incomplete records are not recognised, and the lack of knowledge required to make the necessary adjustments could be improved.

- (d) The scenario of whether to employ a bookkeeper or not was a welcome aspect to this question and most candidates would gain 3 or 4 of the available 5 marks. Good answers clearly identified the help provided to produce financial statements through accurate record keeping/reduction in errors. Similarly, advantages such as 'aiding decision making' and enabling the owner 'to focus on other related business activities' were regularly seen and rewarded accordingly.

A recurring disadvantage that was mentioned was the opportunity for a bookkeeper to commit fraud. This was too remote and other recommendations such as employing an accountant instead of a bookkeeper was outside the scope of the question.

Question 3

- (a) The club accounts topic started with the request to produce an income statement for the club café. The principles of the cost of sales computation and presentation are the same as for a trading business and most candidates could arrive at the profit from the sale of food and drink. At this stage onwards many answers included extraneous items such as club expenses that relate to the running of the club required in the answer to **part (c)**. The wages of the café assistant were the only café expenses that should have been included to arrive at the café profit for the year.

- (b) Club accounts require the preparation of a subscriptions account, as this will usually represent the main source of income for any sports or social club. The bookkeeping entries were standard with both opening and closing balances supplied and the only other requirement being to post the bank receipts correctly in order to arrive at the transfer figure to the income and expenditure account. However, it was not well attempted with items omitted, placed on the wrong side, or labelled incorrectly in the account. Bank was often referred to as just receipts, and the figure of \$3300 representing the balance on receipts and payments was regularly seen corrupting any transfer figure to income and expenditure account that may have been calculated.

- (c) Most candidates were able to attempt to produce an income and expenditure account for the club. Similarly, as in **Question 2**, many answers were not linked to the main sources of income for the club prepared previously in **parts (a)** and **(b)**. Receipts of \$162 000 and \$27 000 were regularly

reproduced incorrectly here, and only occasionally was bank interest of \$720 recognised as being received by the club.

Marks were picked up for expenses, but poor labelling and infrequent attempts to adjust the rent figure meant that between 2 and 4 marks were the returns for the majority of candidates.

Question 4

- (a) This was well answered with most candidates able to make the distinction between a public limited company and a private limited company, although there were a lot of incorrect references to the government.
- (b) Many candidates experienced difficulty in expressing their answers in respect of issued share capital. Issued share capital differs to authorised share capital. Issued share capital will depend upon the amount of capital a company wants to raise. Shareholders may not always receive the amount they have applied for, receiving only shares based upon the number of shares issued. The second aspect of this question related to called up share capital. Answers were slightly better with the recognition that shares are paid for in stages by shareholders in response to the company's demand and planned usage of the capital raised. Key terms such as 'payment has been requested/or asked for' would receive the second mark for this question.
- (c) Most candidates could answer one and often two benefits to operating as a limited company. Regular answers described the protection of limited liability for shareholders, access to additional capital and separate legal identity. Emphasis for limited liability had to be accompanied with 'for shareholders', and there were examples of benefits to sole proprietors or partnerships that resulted in irrelevant or inaccurate responses.
- (d) Statement of changes in equity remains a popular question with candidates, although this had slightly higher marks available as two dividends were paid, and the retained earnings required the deduction of a preference share dividend to obtain both marks before entering into the statement. The main weaknesses identified in the answers ranged from incorrect labels with only dates being entered, mistakes in arithmetic and the inability to align figures into the correct column.
- (e) There were surprisingly few fully correct answers for the extract of the statement of financial position based upon the information prepared in **part (d)**. The tabular statement of changes in equity is designed to show the movement of the different categories of equity and reserves. The closing balances are then disclosed within the statement of financial position in the same order as given in the question template, starting with the most permanent ordinary share capital first. The main weaknesses in the answers given were often due to candidates not transferring the information correctly from **part (d)**, or the inclusion of preference shares which are viewed as external finance and excluded from equity.
- (f) This was a generally a well attempted question with many candidates able to score 4 marks. Weaker candidates tended to misuse technical terms and confused dividends with interest and share capital with loan capital. Strong answers identified voting rights, repayment or not and the possible dilution of ownership, but the minority recognised that interest had to be paid on debentures regardless of the profit level.

Question 5

- (a) Key performance indicators (ratios) are used regularly in business and by accountants to interpret possible reasons why businesses are successful and to provide targets for future improvements. It is most important that candidates are able to calculate a range of ratios correctly, so that the process of interpretation of accounting information can be developed. The three ratios covered the main aspects of working capital management, and it is standard practice to round up the trade receivables and trade payables turnover periods to the nearest number of days. This was ignored in many answers, and it is essential to read the rubric and decide how the ratio should be presented. Weaker responses confused the multipliers that were required with 30, 100 or 360 being used in place of 365. As mentioned in the Key Messages section, this led to inaccurate answers and highlighted a lack of understanding behind why the calculations are carried out.

- (b) This written question was well answered and many candidates identified that money would be received faster, trade receivable turnover would improve but the downside of the policy is the likelihood that customers might be dissatisfied, and this would result in a further loss in sales. A number of responses confused debt collection with debt factoring and made comments such as ‘there would be no irrecoverable debts’ and ‘no need to have a provision for irrecoverable debts’, both not realistic from a business perspective.
- (c) Good answers were followed up here with relevant suggestions on how to improve the trade receivables turnover period. Many answers mentioned offering a discount to customers, but omitted to qualify the term with cash correctly as opposed to trade discount, which was incorrect. A simplistic answer to this style of question is to offer ‘cash sales only’. For most businesses who rely on a credit sales model this is not a realistic suggestion.
- (d)(i) Gross margin could be improved through the reduction in the cost of sales by finding a cheaper supplier or by increasing the selling price. Too many answers just mentioned reduce the cost of sales, this requires a way that this can be achieved and an increase in sales will not alter the gross margin. Surprisingly few responses mentioned changing the proportion of product types sold which is a common method employed by businesses.
- (ii) Profit margin improvement was easily answered, with the main answer being ‘reduce expenses’. Improving sales would not automatically drive through to the net profit, especially if the increase resulted in higher operating expenses. A possible alternative answer ‘to increase other income’ was rarely seen, and should be considered to further aid candidates’ understanding of the dynamics of business margins.
- (e)(i) A straight forward journal entry presented more problems than would have been expected. Incorrect account names such as ‘Azim’ and ‘suspense’ were used, and several examples used an incorrect figure of 680.
- (ii) Finally, a tick-box exercise where most candidates achieved 1 of the 2 marks available. The reduction in purchases due to the owner’s drawings would lead to an increase in the gross profit. The increase in drawings is equal to the increase in gross profit. The overall impact therefore is no effect upon closing capital. Candidates with a sound grounding in double entry bookkeeping will understand the previous journal (**part d**) and be able to track more easily the impact that this error will have upon resources.