

ACCOUNTING

Paper 9706/11
Multiple Choice

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

General comments

Of the total candidates, more than 70% achieved a score of 15 or more. The mean marks were 17.3.

A number of the questions proved easy, with **Questions 3, 7, 11, 12, 13, 18** and **25** being answered correctly by 70% or more of the candidates. Several questions proved challenging and they have been reviewed below.

Specific questions

Question 4

This covered the adjustment to a provision for doubtful debts. Candidates had to work out the closing balance of trade receivables from the data, after adjusting for a settlement discount. Then they needed to calculate the provision required and finally adjust the existing provision.

The closing balance of trade receivables works out to be \$52 500.

The required 2% of this figure is \$1050 – the existing provision of \$1890 leading to the answer of a credit of \$840.

Question 14

With this question the majority of candidates took carriage inwards as part of the total for factory overheads, thus leading to an incorrect answer. The correct answer was $(98\,000 - (60\,000 + 8000)) \div 50\,000 = 60\%$

Question 15

Although there is a partnership agreement identifying interest on capital, the split of residual profits was not covered. Thus the Partnership Act of 1890 applies and the residual profits are divided equally. The residual profits in this case are \$60 000 after giving partners' interest on capital of \$6000 and \$9000 respectively.

Question 19

The increase of 25% in the dividend paid will take the total to \$25 000. Dividing this by 8% means that the total value of share capital can be no more than \$312 500, or 625 000 shares. The present share capital is 400 000 shares, so the maximum increase will be 225 000 shares.

ACCOUNTING

Paper 9706/12
Multiple Choice

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

General comments

A total of 6822 candidates took this paper. 54% of candidates achieved a score of 15 or more out of 30. The mean marks were 15.9.

The results by question reflected the mean score with very few seeming to prove difficult or easy. Those which did appear easier were **Questions 8, 20, and 23**. Those which seemed challenging have been reviewed below.

Specific questions

Question 10

This was a knowledge based question on depreciation. Of the options given only option **A** contained reference to an accounting concept, that of matching and should have led candidates to the correct key. Depreciation is a non-cash expense. A significant number of candidates thought depreciation was aimed at retaining cash in the business.

Question 11

This was a knowledge based question on the purpose of departmental accounts. Their purpose is not linked to statements one or two and these should have been eliminated, leaving the key as **D**.

Question 14

This question required knowledge of the manufacturing account and trading section of the income statement. However, rather than providing figures for opening and closing inventory, the increase or decrease in each over the period was given. Thus to calculate the values of cost of production and cost of sales these needed to be adjusted in the correct direction. This proved to be challenging for some candidates. An increase in inventory will lead to a reduction in the cost of production or cost of sales with a decrease in inventory having the opposite effect.

Question 30

This required candidates to consider when the cash was received from credit sales and paid for credit purchases rather than when the actual sales and purchases were made. Once more a number of candidates incorrectly adjusted their answer by treating depreciation as a cash expense.

Overall comment

When answering the MCQ paper one of the techniques is to identify data which can be immediately eliminated, especially with knowledge based questions. This will not only save time but should result in the correct option being selected.

ACCOUNTING

Paper 9706/13
Multiple Choice

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

General comments

Most candidates achieved 15 or more marks out of 30. Mean marks were 20. There were only two questions which seemed to cause any difficulty and these are reviewed below.

Specific questions

Question 15

The issue which seemed to make the question challenging was the concept of profit for the year. This is the figure **after** the deduction of preference dividends, given that they were not identified and non-redeemable preference shares. Thus to reduce the profit for the year by these dividends was the cause of most candidates arriving at the wrong answer.

The solution is calculated as $\$4\,000 + (\$300\,000 - 160\,000) = \$144\,000$.

Question 22

The dividend paid on the preference share is not regarded as equity dividend as the shares do not form part of the company's equity. Thus the equity dividend was \$4000 rather than \$5000 which is what most candidates opted for.

ACCOUNTING

Paper 9706/21
Structured Questions

General comments

Candidates are expected to read each question carefully before starting their answers.

Comments on specific questions

Question 1

- (a) There were very few fully correct answers to this part. Many candidates deducted the purchase credit note rather than adding it and few dealt correctly with the inventory adjustment and the loan interest. Most candidates did deal correctly with the irrecoverable debt.
- (b) Very few candidates making the required adjustment to account correctly for the trade payables and other payables but the adjustments to the current assets were made to a higher standard. Few candidates were able to adjust the motor vehicles but nearly all entered their profit figure from part (a) correctly.
- (c) This was generally well answered with many candidates scoring full marks.
- (d) Most candidates answered this part well although some candidates presented their answer improperly and some candidates did not label the statement correctly.

Question 2

- (a) This was generally well answered. Common errors included mislabelling the cash introduced by the new partner and the incorrect posting of the current account entries to the capital account.
- (b) This was also well answered but some candidates incorrectly calculated the interest on capital based on the opening balances. Other common errors included subtracting the drawings from the profit for the year rather than adding it back and calculating the interest on total drawings rather than the adjusted amount.
- (c) This part was well answered. Most candidates were able to treat the entries correctly but many did omit the \$2500 drawings of made by the new partner.

Question 3

- (a) Most candidates were able to calculate the contribution for each product correctly. A few, however, only deducted the variable overheads.
- (b) This was also well answered but there were considerably less fully correct solutions than for part (a). Some candidates divided (instead of multiplying) the contribution per unit by the number of batches.
- (c) This part was not answered well. Very few candidates were able to produce the production plan which would maximise profit. Many candidates also did not convert the annual fixed overheads to a monthly amount.
- (d) Candidates were generally unable to discuss the advantages but fared much better with the disadvantages with most discussing the quality and reliability issues satisfactorily.
- (e) Most candidates made a decision but the justification for their decision was usually not correct.

ACCOUNTING

Paper 9706/22
Structured Questions

Key Messages

Candidates are advised to read the questions carefully and to precisely answer the question that has been asked. Furthermore, they should make sure that they develop points sufficiently in written questions. When answering computational questions, candidates should always show their workings.

General Comments

Candidates should remember that questions may be set on any part of the syllabus. The question on costing was not as well answered as those on financial accounting.

It is very important to show workings wherever necessary as an incorrect figure with no supporting workings will not be rewarded whereas if workings are shown, some marks may be awarded even for an incorrect answer.

Candidates should be made aware that there is no better preparation for the examination than answering previous examination questions and appropriate textbook exercises.

Comments on Specific Questions

Question 1

This question required candidates to prepare a manufacturing account and an income statement from a trial balance. Candidates were then required to explain four terms relating to the manufacturing account – direct costs, indirect costs, prime cost and production cost. Whilst the computational parts of the question was generally answered quite well, explanation of the terms proved challenging to a large number of candidates.

- (a) Well prepared candidates were able to prepare the manufacturing account. The most common error was to enter manufacturing wages after prime cost. Some candidates entered all of the overheads as part of the prime cost. Whilst the calculations of depreciation should have been quite straightforward, a number of candidates found this challenging.
- (b) Many candidates prepared the income statement correctly, although quite a large number entered the loss on sale of machinery as an expense in the income statement when it should have been part of the manufacturing account. Candidates should remember that it is important to attach correct labels to items in the income statement, especially profit for the year rather than net profit.
- (c) When attempting to explain terms, many candidates were not clear enough in their statements and often did not show sufficient development of their points to gain available marks. For example, in the case of production cost, many candidates did not refer to the adjustment for work in progress. Many candidates referred only to the behaviour of direct and indirect costs rather than explaining what they are.

Question 2

The question was based on partnership accounts. Whilst much of the question was quite well done, presentation was generally poor.

- (a) The first part of the question required candidates to calculate the partnership profit for the year from the movement in the current accounts. The task proved quite difficult to a number of candidates, many of whom included the capital account balances in their calculations.

- (b) Preparation of the capital accounts was much better. Most candidates correctly calculated the goodwill, although a few did reverse the entries in the capital accounts. Some candidates included all of the entries that should have been in the current accounts. One important point to note is that the question specifically asked for the capital accounts. A minority of candidates submitted a calculation in vertical format rather than the 'T' account format requested.
- (c) Preparation of the appropriation accounts presented mixed responses. Some candidates deducted the interest on drawings rather than adding. It was quite common to see interest on capital calculated on the opening capital account balances rather than closing.
- (d) Candidates were awarded own figure marks in the current account provided they agreed with their own appropriation account.
- (e)(i), (ii) Answers were of a very mixed standard. Majority of candidates were only able to name one reason for the interest on partners' capital and drawings.

Question 3

The question concentrated on allocation, apportionment and absorption. Whilst most candidates were able to gain reasonable marks for the first part of the question requiring the cost apportionment, the remaining parts of the question proved challenging to many candidates.

- (a) Most candidates performed well in apportioning the overheads to departments. Only the machinery maintenance proved difficult to some candidates. Re-apportionment of the service centres was well done.
- (b) Whilst the arithmetic of the calculation of overhead absorption rates was generally correct (allowing for own figures), many candidates did not state that the rates were per machine hour or per labour hour.
- (c) The calculation of under or over absorption was very poorly done. Many candidates who attempted it used an incorrect denominator. In addition, some candidates clearly did not understand the difference between under absorption and over absorption.
- (d) The majority of candidates who attempted this task gave generic answers rather than relating it to the specific departments as required by the question. Very few candidates gained full marks.
- (e) Calculation of the selling price was very poorly undertaken by the vast majority of candidates. A number of candidates were able to correctly calculate the direct material and direct labour elements of the invoice, but only some were able to correctly calculate the overhead to apply. Only a very small number of candidates appeared to know the difference between mark-up and margin – the vast majority of those who completed the question simply added 35% onto the cost price.
- (f) The final part of the question required candidates to explain the meaning of the three terms, allocation, apportionment and absorption. Candidates' responses were poor.

ACCOUNTING

Paper 9706/23
Structured Questions

Key Messages

Candidates are advised to read the questions carefully and to precisely answer the question that has been asked. Furthermore, they should make sure that they develop points sufficiently in written questions. When answering computational questions, candidates should always show their workings.

General Comments

Candidates should remember that questions may be set on any part of the syllabus. The question on costing was not as well answered as those on financial accounting.

It is very important to show workings wherever necessary as an incorrect figure with no supporting workings will not be rewarded whereas if workings are shown, some marks may be awarded even for an incorrect answer.

There is no better preparation for the examination than answering previous examination questions and appropriate textbook exercises.

Comments on Specific Questions

Question 1

The first question required candidates to prepare an income statement for a sole trader from incomplete records. They were first required to prepare cash account and calculate the revenue for the year.

- (a) Most candidates prepared the cash account correctly.
- (b) The second task required candidates to calculate the revenue for the year. Most candidates were able to calculate the correct figure.
- (c) Well-prepared candidates were able to prepare the income statement. Only the loss on the sale of the motor vehicle proved slightly challenging. Candidates should not use the old terminology of 'net profit' to describe the profit for the year.
- (d) & (e) Well prepared candidates performed well on these parts.

Question 2

The second question tested candidates' knowledge of the statement of financial position of a business, accounting ratios and an analysis of liquidity.

- (a) The first part of the question required candidates to prepare the statement of financial position of a sole trader from a list of balances. Most candidates did the task well, although presentation could be improved.
- (b) Well-prepared candidates had little trouble in calculating the current ratio and the liquid (acid test) ratio. A minority of candidates incorrectly deducted the trade receivables from the current assets in calculating the liquid (acid test) ratio.

- (c) The analysis of the trader's liquidity position was not so well done. Weaker candidates seemed content to simply state that the ratios had weakened. Much more development of points was required.
- (d) Many candidates found preparation of the cash budget challenging. A number of candidates did not include the \$25 000 bank loan as income. Some did not recognise that only one month's interest was applicable to December's cash budget and entered the full year's total of \$1500. A significant number of candidates included the non-cash item of depreciation in the cash budget.

The majority of candidates did not enter the correct opening balance as a negative \$15 000, being the difference between the bank overdraft and the cash in hand.

Question 3

The third question concentrated on the differences between marginal costing and absorption costing. The cost accounting question proved to be very challenging to a number of candidates.

- (a) Most candidates were able to correctly calculate the breakeven point as required.
- (b) & (c) These two tasks required candidates to prepare profit statements firstly using absorption costing and then marginal costing. It was apparent that some candidates were totally unaware of the differences between the two methods and many used a hybrid of both methods. The difference between the two methods is a fundamental principle of candidates' learning for this module.
- (d) Following on from the two profit statements, candidates were required to reconcile the profit figures. This task also proved challenging to a significant number of candidates.
- (e) Few candidates gave a sufficiently developed response to the reasons for the different profit figures. Too many candidates simply stated that it was to do with fixed costs, rather than showing that they had a full understanding of the fact that the cause was due to the valuation of inventory.
- (f) Very few candidates prepared the revised profit statement correctly. In a task of this nature, it is essential that candidates show full workings in order to be rewarded for their own figures.
- (g) Most candidates were able to state situations where marginal costing would help in making a short-term decision.
- (h) Most responses to the evaluation of limitations of marginal costing were not satisfactory.

ACCOUNTING

Paper 9706/31
Multiple Choice
(Supplement)

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

General comments

Many candidates achieved a score of 15 or more correct answers. The median and mean marks were both 16. Of the questions, 15, 17 and 25 seemed quite straightforward with most candidates answering correctly. Some candidates found a few questions challenging. These have been reviewed below.

Comments on specific questions

Question 1

This tested the understanding of the principle of inventory valuation. On the basis of the data given, before considering the damaged items, the gross profit would have been \$231 860 ($495\,630 - [58\,760 + 270\,980 - 65\,970]$). This would be reduced by the loss on the damaged items of \$1870 ($5670 - [4650 - 850]$). The common error was to treat the repair costs in the wrong direction in the calculation.

Question 21

This required knowledge of IAS37, contingent liabilities. The fact that the company had a 70% chance of losing the court case meant that a provision in the financial statements should be made. The amount of this provision would be the invoice value of the goods concerned plus the likely damages, giving the key of **D**.

Question 23

The answer to this question required the calculation of equivalent units produced. In terms of direct material 1060 equivalent units were completed ($900 + [200 \times 80\% = 160]$) and for direct labour 1000 equivalent units ($900 + [200 \times 50\% = 100]$). This gave unit costs for direct material of \$10 and for direct labour \$5. Multiplying these back by the equivalent units gave a total value of \$2100 ($[160 \times \$10] + [100 \times 5]$). The most common error was to multiply the unit costs by 200 in each case.

Question 28

In the question data there were two categories of material. The price difference on each was \$0.16 adverse for material P and \$0.10 favourable for material Z. These differences, multiplied by the actual quantity, gave a total adverse variance for P of \$560 and a total favourable variance for Z of \$750, which when added together gave the key **D**. Candidates either regarded the variance as adverse or multiplied the differences by the standard quantities.

ACCOUNTING

Paper 9706/32
Multiple Choice
(Supplement)

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

General comments

Almost 40% of the total candidates achieved a score of 15 or more correct answers. The mean mark was 14. Looking at the data there was only one question (number 8) where more than 70% of the candidates were correct. There were only three questions which students found to be challenging. Those questions are reviewed below.

Comments on specific questions

Question 3

Candidates were required to identify which of the journal entries would correct the error in the revaluation account. This was the one recording the increased value of land. In order to correct the error the amount had to be doubled. Thus the correct key was **D**. Most candidates took the entry to record the increase in land value as being correct and wrongly adjusted the other two entries.

Question 7

Most candidates incorrectly opted for A or C as their answer. The correct answer was **D**. The company paid a total of \$800 000 for the assets of the business, by issuing shares to this value. Thus for the statement of financial position to remain in balance the net assets must also have increased by this figure.

Question 24

This was a knowledge based question and as such with this type of question the best approach is to eliminate those statements which are obviously incorrect. In this case A and B were clearly incorrect. Thus the choice was between C and D. A budget can be prepared for any duration of time, thus D can also be eliminated, leaving **C** as the key.

Overall comment

Overall candidates did not perform well on this paper. A review of the data indicates that while some candidates made strong attempts at certain questions, they found some parts of a few questions challenging.

ACCOUNTING

Paper 9706/33
Multiple Choice
(Supplement)

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

General comments

Most candidates achieved a score of 15 or more correct answers. The mean marks were 21. There was only one question which proved challenging to candidates.

Comments on specific questions

Question 14

This was a knowledge based question concerning the application of accounting policies by a company. With knowledge based questions candidates can probably eliminate at least two of the statements immediately. In this case C and D were both clearly incorrect. Thus the choice was between A and B, one of which excluded the other. The correct key was **A**.

Overall comment

Most candidates performed very well on this paper.

ACCOUNTING

Paper 9706/41
Problem Solving
(Supplementary Topics)

General comments

Overall performance of candidates was reasonable.

Candidates are advised to study the International Accounting Standards which are listed in the specification to enable them to show an understanding of the topics which they cover.

Comments on specific questions

Question 1

- (a) The realisation account was generally prepared to an acceptable standard with most candidates demonstrating a good understanding of the required entries. There were a number of fully correct accounts. The most common error was in the treatment of the irrecoverable debts and subsequent discount allowed.
- (b) The capital accounts were also well prepared with nearly all candidates correctly posting their own figure from the realisation account. Common errors included the incorrect posting of the loan from a partner and not posting post the closing entries to the bank account.
- (c) Most candidates prepared the partnership bank account correctly.
- (d) Most candidates were able to give an example of a revenue reserve and a capital reserve.
- (e) Very few candidates demonstrated that they had the required knowledge of IAS37. Most responses provided by candidates were not relevant.

Question 2

- (a) There were very few fully correct income statements but most candidates made a reasonable attempt. The calculation of the operating expenses caused difficulty to nearly all of the candidates and some erroneously entered the dividends paid.
- (b) The statement of changes in equity was well prepared with many candidates obtaining full marks.
- (c) The statement of financial position was generally well prepared. Many candidates divided their revenue figure by 0.2 instead of multiplying it. Nearly all candidates correctly entered the trade receivables and trade payables but very few made the closing bank overdraft entry.
- (d) Most candidates did provide a reasonable comparison of performance between the two companies. Responses were often poorly laid out with inadequate analysis.

Question 3

- (a) Many candidates were able to produce a fully correct Process 1 account. There were no common errors.
- (b) Whilst most candidates were readily able to calculate the number of scrap units, only few could calculate the percentage of normal loss. A common error was not adding the scrap units to the production units when calculating this percentage.
- (c) There were relatively few fully correct calculations. Errors included the omission of the Process 1 work-in-progress and the incorrect addition of fixed overhead work-in-progress.
- (d) Most candidates produced a reasonable Process 2 account. Many used their own incorrect work-in-progress figures.
- (e) Many candidates did not copy the table layout as requested. A significant number of candidates subtracted the total costs to complete from the total net costs rather than adding them.
- (f) Most candidates did give appropriate advice to the directors and generally the justification given was relevant with consideration being given to contribution and profit. Many candidates also did consider other factors such as the effect on other customers.

ACCOUNTING

Paper 9706/42
Problem Solving
(Supplement)

General Comments

Candidates were able to complete the paper within the time allowed. The better candidates produced answers which were neatly laid out with clear reference to their workings as well as detailed and precise prose answers. Unfortunately there were apparent gaps in knowledge and understanding with many candidates being unsure of the required accounting techniques and layouts. Aside from the accounting knowledge, many candidates demonstrated poor number handling skills, an inability to review answers for reasonableness and an inability to relate answers to the scenario given in the question. A particular problem was the inability of candidates to recognise when they were working in dollars, dollars thousands and dollars millions.

Comments on Specific Questions

Question 1

Part (a) produced a mixed standard of candidate responses with some candidates preparing well laid out answers and other candidates not sure of the required approach. Some candidates tried to reconcile operating profit with cash flow from operating activities, whereas others prepared an appropriation account. Many answers started with retained earnings. The most common calculation error was to omit the 11/12 fraction in the calculation of finance costs and result in a figure of \$144 000. Candidates are required to be careful with the labelling of profit at different stages.

The majority of candidates answered **part (b)** within their own booklets, although a few answered within the question booklet despite the instructions on the question paper. Common mistakes included thinking that dividends were paid out of share capital and that a rights issue reduced retained earnings. The proposed dividend often appeared. Candidates who were unsure of the layout placed a figure in every box or put the balance in each box after every transaction. The total of each row frequently did not agree with the figures in the row. Many candidates did not record any dates or details by each row. Many candidates recorded some figures as dollars and others as dollars thousands, and then added them together. Extra care should be taken to read the question so that figures are fully understood and are recorded in a consistent manner.

Part (c) was quite well answered as most candidates knew that a proposed dividend was not recorded as a liability but as a note to the accounts. Better candidates stated that it was a non-adjusting event.

Part (d) was also well answered. Common errors were to mix up bonus issues with a rights issue so cash was raised or to state that bonus shares were given to employees to motivate them.

Part (e)(i) was not well answered by the majority of candidates..

Precise explanations of the carrying value and the recoverable amount were required.

Part (e)(ii) was not well answered as few candidates seemed to know how to calculate an impairment loss with some offsetting the impairments against the non-impairment amount for asset 2.

Question 2

Part (a) was well answered for the calculation of contribution but then a large number of candidates mixed up net cash flow and profit.

Part (b) was well answered although some candidates omitted the \$150 000 depreciation and calculated breakeven units as 6350 units. Candidates must remember to round units up to complete whole units. To get the breakeven revenue many candidates used the contribution to sales ratio but forgot the 100 and so had an answer 100 times too low. Unfortunately they did not notice that their answer was not $\$50 \times$ the units.

Part (c) was well answered although a common answer was that the directors should not have multiplied four years at once but done it one year at a time. The better candidates mentioned the initial investment should be included. Depreciation was often mentioned but few mentioned that year 0 is when the cash flow arises.

Part (d) was well answered if candidates used the net cash flow from **(a)** and not profit. The majority of candidates used the yearly approach.

Part (e) and **part (f)** were both very poorly answered. Some candidates gave a prose answer and others used cash flow rather than the net present value within their answers.

Part (g) required precise knowledge of IAS16. When this was not known candidates simply listed everything related to non-current assets such as depreciation and scrap value.

Question 3

In **part (a)** the majority of candidates identified the direction of the figures or that they were either income or expenses. Candidates usually correctly stated the cash sales but few correctly calculated the receipts from trade receivables. Very few candidates included the loan, the vehicle sale proceeds or purchase. Most surprisingly many candidates' balance brought forward was not the bank overdraft but the opening inventory. Some of these candidates made their final balance 3800, which was the closing inventory, by entering a balancing figure.

Part (b) was well answered up to the gross profit. Few candidates showed or referred to workings, which were required especially for the discounts. Rent was often mistakenly recorded as \$4500, loss on disposal was omitted and occasionally the loan was entered as an expense. Some candidates prepared a budgeted income statement for each month thereby not following instructions and unfortunately wasting time.

Part (c) was not well answered with the majority of candidates referring to the movement of cash only and not making comparisons between the two statements.

Part (d) was well answered although some candidates gave a lot of detail, wrote about profit only or gave generic comments on budgeting not on a cash budget alone.

Part (e) was well answered with many candidates correctly using their own profit figure from **part (b)**, although a few were unable to divide by 0.4 or state the answer as a number of times.

ACCOUNTING

Paper 9706/43
Problem Solving
(Supplement)

General Comments

Candidates were able to complete the paper within the time allowed. Many candidates produced reasonable answers to each question with some excellent scripts. The best answered questions were neatly laid out with clear reference to their workings. The prose sections of **questions 2 and 3** were for the most part structured and logically answered. **Question 2** was the best answered question when answers and workings were clearly laid out. **Question 3** was the least well answered question as many candidates did not show their workings or appeared unsure of the correct accounting methods to be used.

Comments on Specific Questions

Question 1

Part **(a)** was well answered by the majority of candidates although a few did not take 2/12 of the amount and calculated the finance costs as \$450 000 instead of \$75 000.

Part **(b)** The majority of candidates correctly adjusted for interest but some omitted the tax liability within their calculation of the profit attributable to equity holders.

Part **(c)** was quite well answered if the candidate knew the correct layout. Most candidates added back depreciation and adjusted for the movements in working capital, but forgot to adjust for both the gain on disposal and dividends received. An own figure mark was awarded if the candidate use the figure calculated in part **(a)** for the interest. Most candidates remembered to adjust the taxation for the amount paid not due. Unfortunately some candidates did not label the final answer correctly as net cash from operating activities and instead referred to profit.

Part **(d)** was well answered. The main mistake was to omit dividends received and paid. Candidates needed to use of correct labels for the cash and cash equivalents and cash flows from investing and financing activities. Some candidates just listed the cash flows without using the correct layout.

Part **(e)** was well answered by the majority of candidates who knew the difference between adjusting and non-adjusting events, as well as the correct treatment of a proposed dividend.

Question 2

Part **(a)** was well answered. The correct labels should have been used for gross profit and budgeted profit for the year. Workings needed to be clearly shown and unfortunately this was not always the case particularly for the calculations of revenue and cost of goods sold. Common errors included the omission of loan interest and the bonus.

Part **(b)** was well answered although some candidates produced a working and not an account. Trade receivables and trade payables were usually correctly calculated although the workings for these figures were not always stated. A common error was that the loan interest was incorrectly included.

Part **(c)** was well answered although a variety of layouts was used. The main errors were the omission from current liabilities of the accrued commission, bonus and interest and omitting to adjust the retained earnings within the equity section.

Part **(d)** was well answered with many candidates knowing the benefits and uses of budgeting. Candidates should have provided more details than simply stating the benefits as “planning”, “control” etc.

Question 3

Part (a) was either answered correctly or candidates calculated just the annual profit and did not identify the year of the first dividend.

Part (b) was not well answered and often omitted by candidates. Some candidates knew that a capital reduction scheme reduced the face value of the share to eliminate the debit balance on retained earnings. Very few candidates backed up their comments with a calculation of the new face value.

Part (c) was better answered with the majority of candidates correctly using the discount factor even if they incorrectly calculated the cash flows. When calculating the net present value candidates are encouraged to use a table layout identifying the net cash flows and present values of each year.

Part (d) was not well answered. Many candidates did not use the net present value calculated in part (c) despite knowing the formula to be used to calculate IRR.

Part (e) was again not well answered as many candidates did not use their figure for average profits but instead used average cash flows to calculate ARR.

Part (f) was well answered with many candidates referring to the positive net present value although many did not develop their answer to include IRR or ARR. Very few candidates commented on the negative present value in year 4 and that the project could be stopped in year 3.