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ACCOUNTING

<p>Paper 0452/01 Multiple Choice</p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	21	D
2	C	22	D
3	A	23	A
4	A	24	A
5	A	25	C
6	C	26	B
7	D	27	A
8	A	28	B
9	B	29	A
10	C	30	D
11	D	31	B
12	D	32	C
13	A	33	C
14	C	34	D
15	C	35	B
16	A	36	A
17	A	37	B
18	D	38	C
19	B	39	B
20	A	40	D

General comments

This was the ninth sitting of this paper.

There were 3135 candidates (compared to 3014 in June 2004). The mean mark was 26.7 out of 40 (compared to 29.3 in June 2004). The standard deviation was 7.8 (compared to 8.0 in June 2004).

Judged against accessibility of 60% – 90%, three items were regarded as slightly too easy and fourteen items were regarded as too difficult.

All items were within the Core Syllabus.

Comments on specific items**Item 1**

Although 38% chose the key, **B**, an equal number selected **D**, which was a definition of fixed assets not total assets.

Item 6

48% correctly selected the key, **C**. 33% chose **D**, incorrectly believing that valuing stock at the lower of cost or net realisable value was an application of the realisation principle.

Item 9

56% chose the key, **B**. 17% chose **A** – incorrectly believing that the account must be paid in cash for cash discount to be awarded. 18% chose **C**, which was a definition of trade discount, not cash discount.

Item 10

This item also concerned cash and trade discount. Only 33% correctly chose the key, **C**. It was disappointing that 40% selected **B** (the list price less 10% trade discount and less 2% cash discount) and 20% selected **A** (the list price less 12%).

Item 12

The key, **D**, was correctly selected by 53%. Selection of the other options – **A** 14%, **B** 13% and **C** 19% – indicates a substantial degree of guesswork.

Item 14

The correct option, **C**, was chosen by 50%. It was disappointing that 33% selected the correct double entry, but believed that the debtor's account appeared in the general ledger and the sales account in the sales ledger.

Item 20

Only 39% correctly selected option **A**. Selection of the other options – **B** 17%, **C** 27% and **D** 17% indicates considerable uncertainty of the effect of accrued expenses on the amount paid.

Item 21

This item was also based on adjustments to expense accounts. Most candidates appreciated that the net profit would be understated. 39% correctly selected the key, **D**, but 35% chose **C**, failing to appreciate that the profit would be affected by double the amount of the original error.

Item 24

Only 45% correctly selected the key, **A**. 32% selected **B**, where all 1500 units of stock were valued at the cost price of \$15.

Item 33

The key was chosen by only 41%. Option **D** was chosen by 30%. This represented Janet's share of the residual profit, not her total income. Option **A** was calculated as half the net profit plus Janet's salary and interest on capital. The 22% who chose this option failed to appreciate partners' salaries and interest on capital are deducted before the profit is shared.

Item 35

53% correctly selected option **B**. Option **C** was selected by 26%, who correctly deducted the current liabilities from the total assets but failed to include the profit for the year in the calculation.

Item 39

51% chose the key, **B**. It was disappointing that 31% chose **C** (gross profit + closing stock as a percentage of sales) and 14% chose **A** (gross profit – closing stock as a percentage of sales).

<p>Paper 0452/02</p>

<p>Paper 2</p>

General comments

Candidates' performance varied very widely and although there were many good scripts, there was a wide range of achievement, with a number of candidates showing marked weakness and not scoring well. There were some topics in the question paper with which candidates found particular difficulty, although all questions tested topics within the syllabus and required knowledge of basic accounting principles and procedures.

Most gave good answers to some parts of the short questions in **Question 1**, but some candidates found several parts of the question very difficult and also became confused. **Question 2 (a)** was well answered and many candidates scored full marks for the question by also correctly answering part **(b)**. Candidates did fairly well on **Question 3 (a)** but parts **(b)** and **(c)** were not well answered and showed weakness in understanding a bank reconciliation and reasons for errors. In **Question 4**, many candidates made good attempts completing ledger accounts in part **(a)**, most either scoring well or very poorly, but few scored well in parts **(b)** and **(c)**, again showing weakness in understanding the accounting principle of matching and its application. Performance in **Question 5** was good: although answers to calculating a sales figure in part **(a)** varied widely, candidates did well in completing the Trading and Profit and Loss Account in part **(b)** and very well in calculating ratios in parts **(c)** and **(d)**.

Most candidates attempted all the paper although weaker candidates often omitted **Questions 3** and **4** altogether and concentrated on earning marks in **Questions 1, 2** and **5**.

Comments on specific questions

Question 1

This consisted, as in previous sessions, of a number of short answer questions requiring knowledge and application across the syllabus. There were some good answers, but very few candidates gave the correct answer to **(f)** and many became very confused in answering **(h)** – particularly **(h)(ii)** and **(h)(iv)**.

- (a)** Most candidates were able to select two books of prime (original) entry from those available: Acceptable answers were the Cash Book, Petty Cash Book, Sales Journal (Day book), Purchases Journal (Day book), Sales Returns Journal (Day book), Purchases Returns Journal (Day book), (General) Journal. Any answer with the word 'ledger' was not acceptable.
- (b)** Most candidates knew that an accrued expense was an expense incurred but unpaid at the end of the accounting period.
- (c)** Again, a large number of candidates correctly answered that a bank overdraft would be shown in the current liabilities section of a balance Sheet but some candidates omitted to specify 'Current' liabilities.
- (d)** Apart from a minority who gave no answer, or incorrect answers, most correctly gave the Suspense account as the account to which the unexplained difference on a trial balance should be transferred.
- (e)** The cost of repairs to motor vehicles is an expense and should therefore be shown in the Profit and Loss Account. Some candidates answered with the Trading Account, but most gave the correct answer.
- (f)** Very few candidates correctly identified this error as an error of original entry. Many thought it was an error of principle, or an error of commission, and every possible type of error was given as an answer by some.
- (g)** Many candidates correctly answered that a going concern will continue in business for the foreseeable future, but there were some imaginative but incorrect answers suggesting the owner was concerned about some aspect of his business.

- (h)(i) Candidates were required to calculate the depreciation charge to be shown in the accounts from the information given, and many correctly calculated $\$12\,000 \times 15\% = \1800 as the answer. The answer to this part did not require a calculation of the net book value but many candidates thought this was the correct answer to this part and showed both figures.
- (ii) In this part, candidates were simply required to show that they understood that the depreciation charge for the subsequent year under the straight line basis would be the same, $\$1800$, as in part (i). Many candidates became very confused, and either answered with the total depreciation to date, $\$3600$, or calculated the depreciation in the second year using the reducing balance method, giving $\$1530$ as an incorrect answer.
- (iii) As a result of their mistaken answers in (ii), a large number of candidates did not obtain the correct answer $\$8400$ to this part, giving the incorrect answer of $\$8670$. Other incorrect answers included $\$10\,200$, $\$3600$ and $\$12\,000$.
- (iv) Answers to this part were very weak. The question required the journal entry to record the depreciation for the year ended 31 March 2005 in Ahmed's accounts; the correct answer was:

	Dr	Cr	
	\$	\$	
Profit and loss account (Depreciation account)	1 800		
Provision for depreciation account		1 800	

Incorrect answers often included the fixed asset $\$12\,000$ on one or the other side of the journal entry, commonly showed depreciation as the credit entry, and often used incorrect figures from previously incorrect answers. Few candidates correctly used the Provision for depreciation account. Performance with this part of the question was disappointing.

Question 2

- (a) This question required candidates to prepare a Balance Sheet from a list of balances given and was well answered. Areas of difficulty or confusion arose when considering how to show the long term bank loan. Some showed it as a long term liability and deducted it from total assets, others included it in the calculation of capital at the end of the year, and others showed it as a separate item to be added to capital. There are clearly some varying but generally acceptable presentations being taught in different Centres.

An acceptable Balance Sheet is as follows:

Bonnie Clyde			
Balance Sheet at 31 March 2005			
Fixed assets			
Machinery at cost	20 000		
Less: Provision for depreciation	<u>12 000</u>		
Net book value			8 000
Current assets			
Stock	3 000		
Debtors	1 000		
Bank	<u>500</u>		
			4 500
less: Current liabilities			
Creditors	<u>700</u>		
			<u>3 800</u>
			11 800
less: Long term liability			
Bank loan	<u>2 800</u>		
			<u>9 000</u>
Capital			
Balance at 1 April 2004	6 000		
Add: Profit for the year	<u>7 500</u>		
			13 500
less: Drawings			
			<u>4 500</u>
			<u>9 000</u>

Other presentations, such as a horizontal layout, are also acceptable.

- (b)(i) Most candidates knew that the definition of working capital was the capital required for the day to day running of the business, and could be found by subtracting current liabilities from current assets. There were some other suggested answers but none that earned any marks.
- (ii) As many candidates had correctly answered part (a), most had no difficulty in identifying the correct working capital as being the current assets (\$4 500) less the current liabilities (\$700) giving the correct answer of \$3 800. Those who incorrectly included the bank loan in their current liabilities also deducted it from current assets to obtain an incorrect answer of \$1 000 but most candidates understood the principle and applied the correct formula to their answer.

Question 3

- (a) This part of the question required candidates to write up the bank column of a cash book to take account of a number of items shown on the bank statement but not yet recorded. The question was well answered by those who understood what was required. First, it was necessary to show the balance previously found in the cash book, \$620 as an opening figure. It was then necessary to record debit or credit entries in the cash book reflecting the various items given, work out the closing balance, close the cash book for April and bring down the revised balance.

Common mistakes included omitting the opening balance, showing entries on the wrong side of the cash book, omitting some of the items, and making duplicate entries on both sides. Some candidates introduced a cash column and entered some items in it, in spite of it being clear from the question that no cash was involved.

The required answer was:

Zafira Cash Book (bank columns)			
	Dr		Cr
	\$		\$
Balance brought down	620	Bank charges	15
Bank interest	20	Insurance (direct debit)	40
Aisha (credit transfer)	130	Dishonoured cheque, Yanni	65
	770	Balance carried down	650
			770
Balance brought down	650		

- (b) Preparation of a bank reconciliation statement is a fundamental and most important accounting procedure and candidates should be well prepared and able to deal with questions requiring this skill. However, very few candidates showed they fully understood the purpose of such a statement, or knew how to prepare it, and performance was very disappointing.

It was necessary to reconcile the corrected balance found in part (a) by adjusting for the two items given in the question, both of which were essentially timing differences. It was necessary to add back the unpaid cheque of \$250 and to deduct the unbanked receipt of \$310 to arrive at the correct balance on the bank statement. Candidates answered with every possible combination of these amounts, adding both, subtracting both, adding one and subtracting the other, and the other way round, but only the correct answer earned full marks. Many also started their reconciliation with the original cash book balance, or with a figure they had found from some unknown source.

The answer should have been:

Bank reconciliation statement at 30 April 2005

Balance from updated cash book (from (a) above)	650
Add: unpaid cheque	250
	900
less: unbanked receipt	310
Balance on bank statement	590

- (c) The question required candidates to suggest two possible errors which might have caused the actual bank statement to show a different figure from that calculated above. Answers might have included omitting a transaction from the cash book, making an error when entering items in the cash book, addition errors in the cash book, not entering an item from the bank statement in the cash book, and similar explanations.

Candidates generally answered this part very poorly, often just repeating the items used in (b), which is clearly incorrect, or giving generic error descriptions, such as 'error of principle' without explaining how a specific error might arise. Real examples of actual errors were required.

Question 4

- (a) This part of the question required candidates to make entries in ledger accounts from information given in a trader's Purchases Journal, Purchases Returns Journal and Cash Book. This required candidates to know how to write up ledger accounts with entries containing the correct date, narrative and amount and especially to know whether the entries should be credit or debit entries. This understanding is fundamental to keeping accounting records and it is most important that candidates are able to show they can correctly apply their knowledge.

This part of the question was not well answered. Many candidates became confused between the two suppliers, showing entries for each in the same account, did not make the correct entries in the accounts, making errors of transposition of figures, omitting dates and narratives, using incorrect narrative such as 'sales' and in many cases reversing the entries altogether, showing a lack of understanding. Many candidates did not post the bank payment to Quayle's account and brought down a balance. The discount entry was often on the incorrect side of the account.

Acceptable ledger accounts would have been:

2005		Block account		2005	
		\$		\$	
8 March	Purchases returns	100	5 March	Purchases	320
30 March	Bank	220	29 March	Purchases	270
31 March	Balance carried down	<u>270</u>			
		<u>590</u>			<u>590</u>
			1 April	Balance brought down	270

2005		Quayle account		2005	
		\$		\$	
31 March	Bank	485	17 March	Purchases	500
31 March	Discount received	<u>15</u>			
		<u>500</u>			<u>500</u>

- (b) The second part of the question required candidates to write up a trader's rent account from information given about bank payments. Many candidates correctly entered the individual bank payments to the account, although again many showed the entries on the incorrect side of the account, but very few correctly showed the prepayment at 31 March 2005 and the correct transfer to Profit and Loss Account for the year. Common errors were to bring down an opening prepayment, although there was no information about this, to carry down a full quarter's rent \$900, instead of the correct amount \$800, or to carry nothing down. Each of these errors resulted in an incorrect transfer to Profit and Loss Account and very few gave the correct amount £3 600 (being 4 x \$900).

The rent account should have been as follows:

		Redd – Rent account			
2004		\$	2004		\$
2 April	Bank	900			
2 July	Bank	700			
31 July	Bank	200			
30 September	Bank	900			
2005			2005		
4 January	Bank	900	31 March	Profit and Loss Account	3 600
29 March	Bank	<u>800</u>	31 March	Balance carried down	<u>800</u>
		<u>4 400</u>			<u>4 400</u>
1 April	Balance brought down	800			

- (c)(i) This part required candidates to explain what was meant by the accounting principle of matching and the answer was costs should be charged or deducted from revenues relating to the same accounting period, leading to the concept of accruals and prepayments.

Many candidates showed some understanding of this principle and earned the available marks, but many seemed unaware of the concept and offered answers relating to other areas of accounting theory. Many suggested that the principle meant that every debit must have a credit, and some thought it meant that a balance sheet should balance. Answers were generally weak.

- (ii) Describing how the matching principle had been applied in the rent account prepared earlier required the answer that the rent paid on 29 March 2005 (\$800) should be carried forward as a prepayment to the following accounting year so that the charge in the Profit and Loss Account was the correct amount for the year ended 31 March 2005.

Candidates who had answered (i) correctly were generally able to explain the point but others were quite unable to give a correct answer and answers were again weak.

Question 5

- (a) The first part of this question required candidates to work out a trader's credit sales for the year from information given from his Cash Book, opening and closing debtors, and cash sales. A wide variety of answers were given, again using every possible combination of the given figures. Many did not deduct the amount of cash sales, and offered the total sales as their answer, adjustments for opening and closing debtors were often reversed, and a surprising number started their calculation by including the opening bank balance \$730 or by using the figure for payments to suppliers and not receipts from customers.

Those who used the correct figures did not find the calculation difficult. A large number of candidates set out their answer in the form of a control account but this was not required and is in fact outside the syllabus. The candidates may have found it a helpful way to present their answer.

The correct calculation is:

	\$
Total bank deposits	15 270
Less: cash sales	<u>2 680</u>
	12 590
less: debtors at 1 April 2004	<u>3 140</u>
	9 450
add: debtors at 31 March 2005	<u>4 080</u>
Total credit sales for the year	<u>13 530</u>

- (b) In this part candidates were asked to prepare a Trading and Profit and Loss Account from information given and using the answer they had found in part (a). Generally this part of the question was answered well. Most candidates did use the credit sales figure they had worked out in part (a), although some used other figures, and many of these used the total cash receipts figure as a sales figure. This was of course not correct.

Most candidates correctly adjusted the purchases figure for opening and closing stock and included the carriage inwards charge in the Trading Account, obtaining the correct cost of sales figure and gross profit figure. Most then showed the other expense items as charges in the Profit and Loss Account, although there were several instances of Drawings being shown as an expense.

Common errors in this part included showing carriage inwards as an expense in the Profit and Loss Account, transposition errors in transferring numbers from the question paper to the answer, omitting items in error, and arithmetical mistakes – many of these could be avoided and marks retained if candidates checked their work before handing in their script.

Candidates generally gained useful marks from this question and showed a good understanding of the layout and presentation of a Trading and Profit and Loss Account.

The correct answer would be:

William	
Trading and Profit and Loss Account for the year ended 31 March 2005	
	\$ \$
Sales – credit	13 530
cash	<u>2 680</u>
	16 210
Cost of sales	
Stock at 1 April 2004	1 780
Purchases	9 560
Carriage inwards	<u>280</u>
	11 620
Stock at 31 March 2005	<u>1 920</u>
	<u>9 700</u>
Gross profit	6 510
Expenses	
Rent	600
Electricity	360
Motor expenses	800
Insurance	580
Wages	<u>1 370</u>
	<u>3 710</u>
Net profit	<u>2 800</u>

- (c) This part required the calculation of the trader's gross profit percentage for the year and was well answered. A large majority of candidates correctly applied the formula to calculate the correct figure. Those who had made earlier errors but used their own figures for gross profit and sales were awarded credit for the correct application of the principle.

$$\begin{aligned} \text{Gross profit percentage} &= \text{Gross profit/Sales} \times 100 \\ &= 6\,510/16\,210 \times 100 \\ &= 40.16\% \end{aligned}$$

- (d)(i) The first part of this question asked candidates to state the effect on gross profit of adding an additional \$90 of cash sales to the total sales. Most candidates correctly stated this would increase the gross profit, also by \$90. Some candidates used words like 'understated' or 'overstated' to describe the effect but may not have been clear what they intended.
- (ii) The second part required candidate to recalculate the gross profit percentage after adjusting for the omitted cash sales. Most candidates correctly increased both the Gross profit and the Sales in the formula but some omitted one or the other and a few reduced the figures instead of increasing them.

$$\begin{aligned} \text{Revised gross profit percentage} &= 6\,600/16\,300 \times 100 \\ &= 40.49\% \end{aligned}$$

<p>Paper 0452/03</p>

<p>Paper 3</p>

General comments

The syllabus recommends that only those candidates who have studied the Extended Curriculum, and who are expected to achieve at least a Grade C, should be entered for this paper. This structured examination paper was designed to discriminate between candidates obtaining Grades A to C.

As usual, all the questions were compulsory and were set mainly on Extended Curriculum topics. The paper was structured so that some of the marks were relatively easy to earn, but other marks could only be earned if candidates demonstrated a greater degree of knowledge and understanding.

A significant number of candidates demonstrated a very satisfactory level of competence and, consequently, achieved high marks. Some candidates, however, would have benefited from further study before attempting an examination paper of this level.

The syllabus for 2005 was changed slightly from that of the previous year. A significant number of candidates did not appear to be familiar with the topic covered in **Question 2 (d)** which was based on section two of the syllabus. Candidates are reminded that any topic appearing on the syllabus may be the subject of an examination question.

Candidates must be made aware of the importance of reading each question carefully before attempting to answer the question. Some answers to the theory questions gave the impression that the candidates had not read the question carefully as they were not actually answering the question being asked.

Lack of attention to detail, such as the omission of dates, inappropriate descriptions and failure to balance ledger accounts caused some candidates to lose marks unnecessarily. A small number of candidates also lost a significant number of marks through inappropriate use of abbreviations. For example, 'bcd' is not adequate to describe a balance carried down; 'OS' is not adequate to describe opening stock. Some candidates lost marks through careless errors such as bringing down the total rather than the balance in a ledger account, transferring figures from the examination paper incorrectly (e.g. \$1000 instead of \$10 000).

Comments on specific questions**Question 1**

This question concentrated on the ledger accounts of a partnership. It was very pleasing to find a large number of candidates achieving full marks on this question.

- (a) Candidates were presented with an Appropriation Account of a partnership and were required to use this to write up the partners' current accounts in the ledger. Most candidates elected to prepare a 'T' account with a column for each partner: individual 'T' accounts or individual three column running balance accounts were equally acceptable.

Most candidates earned high marks on this question. A few candidates lost marks through careless errors such as not balancing the accounts, entering the total profit in each account rather than that particular partner's share of the profit, and the use of inappropriate abbreviations.

- (b) The capital accounts of three partners were required to show the goodwill adjustment on the admission of a new partner. Again, the most common format was a 'T' account with a column for each partner, though individual 'T' accounts or individual three column running balance accounts were equally acceptable.

Once again, many candidates earned high marks. Marks were sometimes lost through incorrect descriptions (e.g. 'Balance' instead of 'Bank' in Anna's account), inappropriate abbreviations and failure to balance the accounts. Some candidates would, however, have benefited from further study on how capital accounts are adjusted for goodwill on the admission of a new partner.

Question 2

This question required candidates to answer some theory questions and to calculate a sales figure using a Trading Account format. Generally this question appeared to cause problems for many candidates, and there were very few wholly correct answers.

(a) An explanation was required as to why a trader should record the financial transactions of her business. Many candidates explained that these would help the trader to calculate her profit/loss, but were sometimes unable to offer any further reasons. Other acceptable answers included the following:

- to ensure that no transactions are forgotten/overlooked
- to enable the financial position of the business to be ascertained
- to assist with decision-making
- to assist any future lender/potential partner/purchaser of the business to make appropriate decisions.

(b) Candidates were required to explain the meaning of the term 'business entity'. Many were able to state that the business and the owner of the business are regarded as separate entities, but failed to expand on this statement. It was somewhat disappointing to find a number of candidates providing a description of the money measurement principle.

(c) Using information provided candidates were required to calculate, by means of a Trading Account, a missing figure of credit sales. Some candidates produced wholly correct answers. A significant number of candidates treated the gross profit margin of 20% as a gross profit mark-up and consequently calculated the gross profit as \$2800 instead of \$3500. These candidates were, however, often able to earn an own figure mark for the credit sales. A few candidates failed to follow the instruction to that the answer should be in the form of a Trading Account.

(d)(i) This section was based on the interpretation of the term 'comparability'.

Candidates were informed that the trader could compare her results with those of the previous year and asked to state one comparison she could make. A large number of candidates correctly stated that she could compare her results with those of another business of a similar size/type. It was disappointing to find a large number of candidates repeating the information given and suggesting a comparison with results of previous years.

(ii) One way in which the result of any comparison could be used was required. Many candidates correctly suggested that problems could be identified, or profits improved, but failed to suggest any ways in which these policies could be carried out. Some candidates did, however, develop their answers such as suggesting that profits could be improved by reducing the expenses, increasing the selling price, purchasing cheaper goods etc.

(iii) This part was based on the interpretation of the term 'reliability'.

Two conditions which must be present for information in financial statements to be regarded as reliable were required. The vast majority of candidates did not appear to be familiar with this term. Many answers explained about following the basic accounting principles of consistency, prudence, and so on. Some candidates managed to earn marks for stating that the records must be accurate. Acceptable answers were as follows:

Information must be:

- capable of being independently verified
- free from bias
- free from significant errors
- prepared with suitable caution being applied to any judgements and estimates which are necessary.

Question 3

Using the Balance Sheet of a trader, together with other information provided, candidates were required to calculate and interpret various ratios.

- (a) Candidates were required to calculate the current ratio and the quick ratio and then to explain which ratio gives a better indication of the liquidity position.

It was pleasing to find that the vast majority of candidates correctly calculated the two ratios to two decimal places (as required by the question) and stated the ratios in the correct format i.e. 1.52 : 1 and 0.69 : 1 respectively.

A number of candidates stated the correct formula for the quick ratio but then made the mistake of using \$9500 (instead of \$12 000) for the value of the stock.

Many candidates also correctly identified the quick ratio as being the one which gives a better indication of liquidity as it omits stock from the calculation, as stock is the least liquid current asset.

- (b) The return on a trader's capital employed (ROCE) had to be calculated. Whilst there were many correct answers, it was disappointing to find that many candidates seemed to be unfamiliar with this calculation.

- (c)(i) Candidates were required to calculate a trader's collection period for debtors. The majority of candidates knew the appropriate formula and were able to gain full marks. Some candidates attempted to use 30 days rather than 365 days in the calculation. A few candidates failed to qualify their answer and simply put '51' rather than '51days'.

- (ii) Based on their answer to (i), candidates were required to state, giving a reason, whether the trader would be satisfied with this ratio. Most candidates correctly explained that the debtors were taking much longer to pay their accounts than the period of credit actually allowed.

- (d)(i) A calculation of a trader's payment period for creditors was required. Once again, it was pleasing to find a large number of wholly correct answers. Those candidates who made errors in the calculation of (c)(i) made similar errors in this section.

- (ii) Candidates were required to state one advantage to a trader of paying his creditors before the due date. Many candidates recognised that cash discount may be available. Another acceptable answer was that the relationship with suppliers would be improved.

- (iii) One disadvantage to a trader of paying his creditors before the due date was required. Some candidates were able to comment on the fact that the business is deprived of the use of the money earlier than necessary, or to make other acceptable comments.

A few candidates incorrectly stated that the trader's working capital would be reduced. Many failed to relate their answer to the trader named in the question who already had a bank overdraft and debtors who were taking an extended credit period.

It was disappointing to find many candidates describing the loss of cash discount or the imposition of interest for late payment. These answers may indicate that candidates had not read the question carefully and believed that it was asking for disadvantages of paying after the due date.

Question 4

This question was based on the accounts of non-trading organisations.

- (a)(i) The term 'Income and Expenditure Account' had to be explained. It was pleasing to find that many candidates were able to explain how this account is equivalent to a Profit and Loss Account of a trading business and that it is used to calculate the surplus or deficit. Once again, it would appear that a number of candidates misread the question and simply described the terms 'income' and 'expenditure'.

- (ii) Candidates were required to explain the term 'accumulated fund'. The majority of candidates correctly stated that this is equivalent to the capital of a trading business. Very few candidates, however, explained how the annual surpluses (less any deficits) accumulate within a non-trading organisation to form the accumulated fund. A number of candidates incorrectly stated that this represented the money invested to start/run the organisation.

- (b) Using information provided, candidates were required to prepare a Receipts and Payments Account. It was pleasing to find many candidates gaining high marks on this question. Others lost marks because of errors such as adjusting the subscriptions and the rent to get the amount relating to the financial year in question. A Receipts and Payments Account records the actual amounts received and paid – irrespective of which period to which those items relate.

A few candidates incorrectly included some or all of the opening assets of the club: these, of course, apart from the bank balance, do not affect the Receipts and Payments Account. Other candidates lost marks through the use of inappropriate abbreviations and incomplete descriptions (e.g. 'purchases' for 'purchase of instruments'). It was disappointing to find some candidates reversing the account.

- (c) Candidates were required to prepare a subscriptions account. Generally, the answers to this were rather disappointing. Only a very few candidates produces wholly correct answers. This would seem to be a topic which requires further study by many candidates.

Question 5

The correction and effect of errors was the subject of this question.

- (a) Candidates were required to explain why it is necessary to open a suspense account when the totals of a trial balance fail to agree. This ensures that the totals of the trial balance agree and allows the preparation of draft final accounts. A large number of candidates explained that the suspense account made the totals of the trial balance agree. However, many candidates repeated the information given in the question that the difference on a trial balance is entered in a suspense account, and failed to answer the question of *why* this is necessary. Others appeared to believe that the suspense account actually located the errors.

- (b) Journal entries were required for the correction of five errors. Once again, many candidates gained good marks.

Errors two and five caused the most problems. In error two, \$400 paid to Mutua, a supplier had been credited to the account of Mutola, another supplier. A large number of candidates debited Mutua and credited Mutola with the \$400. Only a small number of candidates realised that the correcting entry was to debit both the suppliers with \$400 and to credit the suspense account with \$800.

In error five the total of the sales returns journal, \$420, had been credited to the purchases returns account as \$240. A common error was to debit one of the returns accounts and credit the other. The correct entry was to debit the sales returns account with \$420, debit the purchases returns account with \$240 and to credit the suspense account with \$660.

- (c) Candidates had to calculate the effect on the net profit of correcting four errors. There was a mixed response to this question. Some candidates produced very good answers: others produced very poor answers. It was disappointing to find many candidates making careless errors which resulted in loss of marks. These errors included adding the difference between the plus and minus columns from the original net profit, even though the minus column was the largest, adding the plus and minus columns together and adding/deducting the result to/from the net profit.