

# ACCOUNTING

**Paper 3176/12**  
**Paper 12 (Multiple Choice)**

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

## **Key messages**

Candidates should be familiar with all the topics on the syllabus and have a thorough understanding of accounting.

It is important that candidates read each question very carefully to ensure that they have a clear understanding of what is required before selecting an option on the answer sheet.

## **General comments**

Those candidates who possessed a good understanding of double entry bookkeeping and the financial statements of various types of organisations were able to select the correct key to many questions on the paper.

### Comments on specific questions

#### Question 6

The majority of candidates appreciated that credit notes issued relate to sales returns, but only half of these candidates selected the key (option **D**). The total of the sales returns journal is transferred to the sales returns account each month so only one entry is made to cover the total returns each month. It is still necessary to record the returns in the individual accounts of trade receivables.

#### Question 10

Carriage on purchases should appear in the trading section of an income statement and carriage on sales should appear in the profit and loss section of an income statement. In this scenario both items had been included as expenses. The cost of sales was understated by \$260, so the gross profit was overstated by the same amount. The key was **B**.

#### Question 18

The credit entry in the irrecoverable debts account represents a transfer from that account to the income statement. This is the total of the debts written off during that financial year (option **A**). Debts previously written off and later recovered can either be transferred directly from the debts recovered account to the income statement or transferred to the credit of the irrecoverable debts account (where the narrative would be 'debts recovered' not 'income statement') and then the difference on that account transferred to the income statement.

#### Question 19

A trader's provision for doubtful debts was increased by \$6000 on 31 December 2020. The total provision was \$15 000 which represented 8 per cent of the trade receivables at that date. This meant that trade receivables owed \$187 500 (option **B**). Some candidates incorrectly selected option **A** which represented the opening trade receivables. Other candidates incorrectly selected option **C** which represented the opening trade receivables of \$150 000 ( $\$9000 \times 100/6$ ) plus \$75 000 ( $\$6000 \times 100/8$ ).

#### Question 20

It was expected that candidates would understand that inventory is always valued at the lower of cost and net realisable value. It is necessary to pay carriage inwards in order to obtain the goods, so carriage should be regarded as part of the cost of the goods. Product X should have been valued at \$950 per unit as this was lower than the cost price per unit. Product Y should have been valued at \$1500 per unit as this was lower than the selling price. The key was **C**.

#### Question 21

The profit for the year of a service business is calculated by deducting the expenses for the year from the total income. Some candidates did not appreciate that the total fees earned during the year represented the income for the year and they incorrectly added the fees owing by clients at the year-end. The cost of computer equipment is capital expenditure and would not appear in an income statement so the expenses for the year totalled \$146 000. The profit for the year was \$98 000 (option **C**).

#### Question 22

Goods taken for personal use by the owner of a business had not been recorded. If the income statement is adjusted for these goods, the cost of sales will decrease and the gross profit and the profit for the year will increase. There will not be any effect on the owner's capital as the profit for the year increases, but the drawings also increase by the same amount. The key was **B**.

### Question 23

It was expected that candidates would know which items are included in a partnership's income statement and which in the appropriation account. A partner's salary should be included in the appropriation account. Goods taken by a partner for personal use would be deducted from the purchases in the cost of sales section of the income statement. Interest due on a loan from a partner is an expense to the business and would be included in the income statement. The key was **D**.

### Question 26

The receipts and payments account of a sports club summarises all monies paid and received during the financial year irrespective of the financial year to which they relate. No distinction is made between capital and revenue expenditure. Items 3 and 4 related to amounts accrued at the end of the financial year (subscriptions owed by members and wages owed by the club) and would not be recorded in the receipts and payments account. Item 1 related to money spent and item 2 related to money received, so both of these would be included in the receipts and payments account.

### Question 28

This proved to be difficult for many candidates. The majority understood that the drawings must be added back to the increase in the capital in order to calculate the profit for the year, but many were unable to correctly calculate the increase in capital. With this type of question it is easier to make up some amounts and then see the effect of any changes. For example, using opening assets of \$100 000 and opening liabilities of \$25 000 the capital would be \$75 000. If the assets increased to \$112 000 and the liabilities decreased by \$7000 the closing capital would be \$94 000. The increase in capital would be \$19 000. Adding back the drawings for the year the profit for the year of \$32 000 could be calculated.

### Question 29

A trader marked up his goods by 25 per cent. If his revenue was \$60 000 the cost of sales must have been \$48 000. The rate of inventory turnover was 10 times which equals the cost of sales divided by the average inventory. Therefore the average inventory was \$4800 (option **D**).

### Question 30

A number of candidates appear to have been incorrectly applying the current ratio. The liquid (acid test) ratio compares the current assets excluding inventory to the current liabilities. The trader's liquid (acid test) ratio was 1.2 : 1. There was only one liquid asset which was the trade receivables (\$30 000). This meant that the current liabilities must have totalled \$25 000. The trade payables and other payables totalled \$23 000 so the bank overdraft must have been \$2000 (option **A**).

### Question 32

The annual expenses of a company in both percentage terms and in dollar terms could be calculated from the information provided. In year 1, the gross margin was 55 per cent and the profit margin was 5 per cent so the expenses for the year equalled 50 per cent of revenue which was \$5000. In year 2, the gross margin was 58 per cent and the profit margin 7 per cent so the expenses for the year equalled 51 per cent of revenue which was \$5610. The key was **D**.