

ACCOUNTING

Paper 9706/11 Multiple Choice
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	16	A
2	D	17	A
3	B	18	B
4	C	19	D
5	C	20	C
<hr/>			
6	B	21	C
7	C	22	A
8	A	23	B
9	C	24	D
10	B	25	C
<hr/>			
11	B	26	D
12	D	27	D
13	C	28	B
14	C	29	C
15	C	30	B

Key messages

There were questions on why a business makes a charge for depreciation, bank reconciliation and financial statements, identifying the correct figures to use when calculating accounting ratios, calculation of the wages earned by a worker, together with the calculation of bonus payments.

General comments

Only 25% candidates achieved a score of 15 or more correct answers. The mean marks were 12.

There were five questions where less than 30% of candidates identified the correct key. These will be discussed below.

Comments on specific questions

Question 1

Questions designed to examine accounting concepts can often be open to interpretation. However, this one should not have been so. The question dealt with the recording of a specific transaction and when it should be recorded in the books of account. Neither the business entity nor substance over form were relevant in this case and should really have been discounted immediately, leaving only realisation as the correct response, being the concept applied to sale of the goods becoming a fact.

Question 2

This question required candidates to identify why a business charges depreciation on a non-current asset. The answer was **D**, that is, to spread its cost over its useful life. Over half the candidates opted for **B**, to show its value in the financial statements. The value will be recorded whether the asset is depreciated or not, so this should have been ignored.

Question 6

The cash book showed a credit balance which should have led candidates to the fact that the balance was a current liability. Of the two adjustments given, only one needed to be recorded in the cash book (the unrecorded bank charges) and this would have increased the overdraft. Thus in the statement of financial position the bank balance should be recorded as a current liability.

Question 19

Candidates were required to calculate the non-current asset turnover from the data. The issue was whether it should be the non-current assets at cost or their net book value which should be compared with the revenue (turnover), not the profit. It should have been their net book value which was used, thus leading to the key **D**.

Question 25

This concerned the calculation of an employee's weekly pay, taking into account the basic rate, overtime and a possible production bonus payment. The employee had worked more hours (41) than the basic requirement (40), which meant that an overtime payment should be included. However, when the production for the week of 161 items was divided by the 4 required for each hour worked, the employee did not make enough to earn a production bonus, so this should have been ignored in the calculation, leading to the key **C**.

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Paper 9706/12 Multiple Choice
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	16	D
2	D	17	A
3	B	18	B
4	A	19	C
5	A	20	A
6	B	21	D
7	B	22	B
8	A	23	D
9	C	24	C
10	C	25	A
11	C	26	A
12	A	27	C
13	B	28	B
14	B	29	D
15	C	30	D

Key messages

This question paper included questions on the correction of errors using suspense accounts, the impact on a company's equity of bonus, right issues of ordinary shares, profit/volume analysis and the elimination or changing of variable and fixed costs.

General comments

61% of candidates achieved a score of 15 or more. The mean mark for this paper was 17.

The performance of candidates in response to questions on financial accounting was significantly better than those in respect of cost and management accounting.

One question, which will be discussed below, was answered incorrectly by the majority of candidates.

Comments on specific questions

Question 25

Candidates had to make a decision in respect of making or buying in a product. The current situation is that the company makes a contribution of \$10 per unit, $\$[25 - (12 + 3)]$. The variable selling costs should be excluded from the calculation as that will be paid whether the company buys or makes the product. Thus candidates needed to identify a purchase price for the product which would still yield a \$10 contribution. The answer here is \$15, being the variable costs which would be saved.

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Paper 9706/13 Multiple Choice
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	C	16	B
2	B	17	D
3	A	18	B
4	B	19	D
5	C	20	A
<hr/>			
6	A	21	B
7	B	22	B
8	A	23	A
9	A	24	C
10	B	25	A
<hr/>			
11	C	26	D
12	D	27	D
13	C	28	A
14	A	29	D
15	C	30	A

Key messages

This paper included questions on the following topics: bank reconciliation, financial statements, reconciliation of control accounts with the sales, purchases ledger balances and separation of the fixed and variable elements of a semi variable cost.

General comments

The majority of candidates achieved a score of 15 or more.

The questions on this paper were accessible. There was one question that the majority of candidates answered incorrectly.

Comments on specific questions

Question 7

Candidates were required to identify the amount which should be shown in the statement of financial position for the bank. Only one of the adjustments, the unrecorded insurance direct debit actually affected the cash book figure which was given. Thus the key was **B**.

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<p>Paper 9706/21 Structured Questions</p>

Key messages

It is important for candidates to show workings for computational questions.

In written questions, candidates should make sure that they provide sufficient development to their answers. One or two word answers will seldom suffice.

Candidates must develop greater analytical skills and learn to extract information from scenarios to make their answers relevant.

General comments

Overall candidates have performed reasonably well on the paper. Many candidates found the cost and management accounts question challenging. The difficulty appears to be a lack of analytical and evaluative skills.

Many candidates did not have appropriate presentation while answering computational questions. Good structured workings can only help the candidate answer the question.

Comments on specific questions

Question 1

The question concentrated on limited company accounts

- (a) The question required candidates to prepare an income statement in as much detail as possible from the given data. Whilst the question was generally well answered, some candidates did not understand that it had to be prepared in as much detail as possible. Consequently, the key was to calculate the missing figure, opening inventory. Candidates who merely entered the cost of sales as a single figure lost one mark.
- (b) Suggestions as to why the balance on retained earnings may be lower than the profit for the year were very mixed. The question was basically asking what adjustments may be processed through retained earnings on the statement of changes in equity. Many candidates did not recognise the connection.
- (c) Candidates found calculation of the three ratios challenging. Many candidates were clearly unable to recall the formula for the ratios.
- (d) Whilst the well prepared candidates were able to offer very good discussion on the performance of the company based on the ratios, less well prepared candidates struggled to gain more than one or two marks of the available six. This highlighted a continuing problem of a lack of analytical skills and a basic lack of understanding of the meaning and implication of the ratios.

- (e) Most candidates performed reasonably well in advising the directors of the company which company they should choose as suppliers.
- (f) Calculation of the revised profit as a result of three errors was well answered by most candidates.
- (g) Only the well prepared candidates were able to answer the question by identifying the differences between a capital reserve and a revenue reserve.

Question 2

The question assessed candidates' knowledge on partnership accounts.

- (a) Whilst weaker candidates did not attempt the preparation of the realisation account on dissolution, most candidates who did attempt it gained good marks. It must be remembered that a question requiring the preparation of any account, requires a double entry account, not a list of figures resulting in a calculation.
- (b) Clearly, those candidates who were unable to complete the realisation account were also unable to prepare a statement to show the settlement to one of the partners. This question did not require a double entry account – a calculation sufficed.
- (c) Most candidates were able to gain two marks by stating two reasons why a partnership may be dissolved.
- (d) Most candidates recognised that any debit balance on a partners account must be repaid to the other partners, but few provided sufficient development to gain any further marks.

Question 3

The question focused on the reconciliation of the sales ledger control account with the list of sales ledger balances.

- (a) Many candidates were able to state two benefits of a double entry system, usually the prevention of fraud / errors and ease of preparation of financial statements, but few were able to gain full marks by stating a third benefit.
- (b) Most candidates made a very good attempt at reconciling the control account balance with the total sales ledger balances, though very few gained full marks.
- (c) Whilst well prepared candidates were able to offer valid reasons why there may be a credit balance on a sales ledger account, many candidates clearly gave the issue little constructive thought. Some candidates made no attempt at the question whatsoever.
- (d) Most candidates offered substantiated advice as to whether the trader should charge interest on overdue sales ledger balances.

Question 4

The question concentrated on marginal costing.

- (a) Most candidates were able to calculate the budgeted fixed costs from the given data.
- (b) Whilst candidates would be very familiar with a break-even calculation, many were unable to calculate the number of units required to earn the budgeted profit by adding that profit figure to the fixed costs. Similarly, only the well prepared candidates were able to calculate the contribution to sales ratio.
- (c) Whilst the contribution to sales ratio is to an extent self-explanatory, many candidates were unable to state the meaning of the ratio.
- (d) Responses to the margin of safety question were better. Most candidates identified the ratio, but explanations of the significance of the ratio were only adequately answered by very few candidates.

- (e) Almost half of candidates made no attempt at preparing the break-even chart. The responses did highlight the fact that there is a lack of understanding of the basic principles of break-even analysis.
- (f) This lack of understanding was again demonstrated in responses to the limitations of the technique.
- (g) Only a few candidates were able to calculate the number of units to be sold to match the budgeted contribution of the current year, again highlighting the lack of understanding of the techniques.
- (h) Evaluation of the trader's decision regarding whether or not to increase his selling price, again resulted in very poor responses and little evidence of analysis and evaluation of a problem.

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<p>Paper 9706/22 Structured Questions</p>

Key messages

It is important for candidates to show workings for computational questions.

In written questions, candidates should make sure that they provide sufficient development to their answers. One or two word answers will seldom suffice.

Candidates must develop greater analytical skills and learn to extract information from scenarios to make their answers relevant.

General comments

Overall candidates have performed reasonably well on the paper. The well prepared candidate was given ample opportunity to answer questions across the full range of the syllabus and consequently gain good marks.

In some cases candidates struggled to produce good answers to the cost and management accounts question mainly because of a lack of analytical skills.

Many candidates did not have appropriate presentation while answering computational questions. Good structured workings can only help the candidate answer the question.

Comments on specific questions

Question 1

The question concentrated on preparation of limited company accounts.

- (a) This part required candidates to prepare an income statement from a trial balance after processing adjustments. The structure of the income statement was provided, but despite this, some candidates were unclear under which heading some of the adjustments should be made. Some candidates did not provide any workings and could not get any credit.
- (b) The current assets extract from the statement of financial position was not well attempted by the majority of candidates. For a limited company in particular, the items in this section must always be shown in decreasing order of liquidity. The headings are always new terminology headings – inventory, trade and other receivables and cash and cash equivalents. Furthermore, the provision for doubtful debts should always be subtracted from the trade and other receivables. Few candidates followed these basic rules.
- (c) Explanations as to why a company should provide for depreciation on its non-current assets were very mixed. Well prepared candidates scored good marks whilst others wrote long responses that simply did not address the question in sufficient detail.

- (d) Most candidates were able to explain two differences between ordinary shares and preference shares.

Question 2

The second question tested candidates' knowledge ratio analysis.

- (a) Whilst many candidates scored full marks for stating two limitations of using ratio analysis to analyse the performance of a business, some candidates simply referred to the dangers of comparison of the results with those of other companies. That is not what the question was asking.
- (b) Whilst it was clear that the majority of candidates were familiar with the formula to calculate the current ratio of a business, a number struggled to gather together the correct figures from the data provided. The ratio should always be presented as a ratio, that is, 1.25:1. Candidates who simply answered did not get the second mark.
- (c) The same comments apply to the calculation of the liquid (acid test) ratio as those addressed above for the current ratio.
- (d) Calculation of the rate of inventory turnover was very well answered by the majority of candidates.
- (e) Advice as to whether the trader should or should not take a loan, highlighted analytical prose in less well-prepared candidates. Candidates should have referred back to the case study to back up generic points.

Question 3

The question concentrated exclusively on partnership accounts and was generally very well answered.

- (a) Many candidates gained full four marks by stating four provisions that would apply in the absence of a partnership agreement.
- (b) Preparation of the partners' capital accounts was well answered, though candidates must be aware that accounts must always be balanced off and the balance carried down.
- (c) As was the case with question 2(e), candidates showed a lack of analytical skills and were not able to relate their answer to the scenario.

Question 4

The final question concentrated on marginal costing and budgeting. The responses were very mixed.

- (a) Most candidates were able to prepare the income statement in a marginal cost format, though a number of candidates did not recognise that sales commission was a variable cost.
- (b) Calculation of the break-even point was well answered. The major problem was that some candidates did not appreciate that break-even point must be a whole number and that it must be rounded up to the next whole number, not down.
- (c) Candidates found it challenging to analyse the two proposals put forward by the directors and calculate the number of units to be sold to achieve a stated profit. Whilst the technique was understood by many candidates, the execution was not well done.
- (d) The question was not well answered and candidates could not recommend which proposal to adopt. The question required 'discussion' and many responses suffered through a clear lack of development of points raised due to insufficient reference to the scenario.
- (e) Stating three advantages and disadvantages of a system of budget preparation produced very mixed results. Well prepared candidates were able to readily pick up six marks, though less well prepared candidates struggled with this knowledge question.

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<p>Paper 9706/23 Structured Questions</p>

Key messages

Many candidates who performed well also used correct terminology/label. There were cases of values being presented with incorrect terminology and in some cases no supporting terminology.

Some candidates omitted to give a decision to support their analysis where questions required an analysis of a given situation and a final decision.

Candidates need to carefully read the detail of question requirements and answer the question asked, rather than the one they would have liked to have been asked.

General comments

There were cases of calculations being made and then incorrectly treated, for example, adding rather than subtracting.

Comments on specific questions

Question 1

This question concerned a partnership where one of the partners was leaving.

- (a) Many candidates made the correct adjustment for depreciation. However some candidates did enter the six-month value of \$2000 rather than the depreciation for the full year. Many candidates adjusted the cost price by 20 per cent rather than the sales price. Whilst most candidates correctly deducted the adjustments, some did add to the draft profit.
- (b) The partnership appropriation account was well presented by many candidates. Some did not identify entries against specific partners and did not show a sub-total for each aspect. Some candidates entered the monthly salary as the total for the year and calculated interest on capital for each partner on the total capital rather than the capital amount for each partner. A few candidates reversed additions and subtractions.
- (c) Few candidates responded with the question requirement on the valuation of goodwill and the revaluation of assets when a partner retires. Many defined goodwill or responded on the reasons for goodwill. There were also some responses on the accounting treatment for goodwill.
- (d) There were few completely correct responses. Frequently candidates omitted the balance from the current account in calculations. Many based the calculations on the capital account adjusted for goodwill and revaluation only, although some did not make any adjustment to the values to reflect the partnership sharing ratio. Most did apply 60 per cent to their adjusted amount to show how much the partner leaving would receive based on their calculations.
- (e) Although very few candidates gained full marks, most did achieve some marks. A few did relate to the increase in income and the interest rate on the loan relative to an external rate. Responsibility and security of employment were mentioned as non-financial factors although it was not always clear to which option this applied. There were frequent responses to the impact for the partnership rather than partner leaving. Some candidates did not give a final decision.

- (f) Most candidates gained a mark for referring to the availability of funds, however very few made reference to the security that may be required for a new loan or any risk to the business. Again, some candidates did not give a final decision.

Question 2

This question related to the preparation of a statement for changes in equity and to bonus issues.

- (a) There were many good responses and many candidates gained high marks for the statement. Some candidates did not calculate the number of shares for the bonus issue and omitted to divide the share capital by two. Likewise, some did not show the correct number of shares for the rights issue basing it on the original share capital only. Some calculated dividend on the original share capital and not including the additions for the bonus and rights issues. The revaluation and profit for the year were correctly entered by most candidates. A few candidates did place items in incorrect columns.
- (b) Many candidates gained marks for relating bonus issues to giving a positive sign to potential investors, but few mentioned that a bonus issue could be made instead of paying dividends to existing shareholders. Few mentioned that cash could be used for reinvestment in the business. There was some confusion between cash and capital. A few candidates compared bonus issues with a rights issue.

Question 3

This question focused on ratios.

- (a) There were few completely correct responses, although many candidates did gain high marks. Most stated the correct formula. Some candidates omitted to deduct the cash sales in the calculation for the trade receivables turnover and many did not round up final answers to the nearest day.
- (b) Some candidates gained high marks with the correct closing inventory. However, there were also some who gained few or no marks, often for not calculating the cost of sales or inverting the formula.
- (c) Many candidates gained high marks for the correct calculation for the trade receivables turnover and stating the correct formula. Some candidates did not round up final answers to the nearest day.
- (d) Few candidates referred to trend analysis and comparison with competitors as uses of ratio analysis for a trader. Frequently responses related to how to calculate ratios and the different types of ratios.

Question 4

The final question focused on cost and management accounting.

- (a) The contribution per unit was correctly calculated by most candidates. An incorrect calculation was usually the result of including a value for machine hours or omitting variable overhead.
- (b) This question was well answered with many candidates earning the maximum marks. Some candidates did not follow the question requirement to show maximum contribution.
- (c) Most candidates gained the one mark available for showing the total machine hours. Some candidates showed individual amounts but did not total.
- (d) Many candidates demonstrated a good understanding of the limiting factor. Most were able to give a priority for production based on reduced machine hours, although a few did base priority on the contribution per unit only. Some candidates calculated the contribution for each product by multiplying the unit quantity by the contribution per machine hour rather than by the contribution per unit. A few candidates did not label calculations.

- (e) Few candidates gained the maximum marks available and frequently the focus was on machinery not working and breaking down. Many did not use the financial information given in the question or indicate that maximum demand could be met. Some related the response to profit changing, but did not give any supporting calculations. Some candidates did not give a final decision.
- (f) There were frequent references to limiting factor, which was given in the question. There were many references correctly to make or buy, but few to other applications. Some candidates responded with a description of marginal costing.
- (g) Whilst there were many correct answers there were also some where the budgeted overheads were divided by actual rather than the appropriate budgeted hours. Some candidates did not label calculations.
- (h) Many candidates compared actual overheads with budgeted overheads rather than with actual hours multiplied by the rates calculated in (a). Some stated over absorption rather than the under absorption.

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<p>Paper 9706/31 Structured Questions</p>

General comments

Generally, candidate performance was reasonable. Responses to numerical questions are generally better than responses to the written questions.

Comments on specific questions

Question 1

- (a) Most candidates were able to state two required objectives.
- (b) This was generally well answered with most candidates scoring reasonable marks. Some responses incorrectly adjusted for depreciation which was charged to cost of sales. The better answers correctly accounted for the closing inventory. Some responses included incorrect adjustments for depreciation on motor vehicles. The best responses were laid out clearly in an appropriate manner.
- (c) This was very well answered with many candidates scoring full marks.
- (d) This was not answered well. Many responses provided advice. Only the better responses included a well explained justification.

Question 2

- (a) Most candidates adjusted the trade receivables as was necessary. The better responses accounted correctly for the rental deposit and rent prepayment. Relatively few responses included application of IAS37.
- (b) Responses to this question were mixed. The better responses explained how both items 1 and 2 should be treated. A number of responses had no appropriate explanation.
- (c) This was well answered with nearly all candidates providing an explanation.
- (d) This question was not answered well with many responses not answering the question posed.
- (e) Many responses to this question included a recommendation about whether the method should be changed. The better responses then gave a clear justification for this. A significant number of responses included the statement 'lower of cost and net realisable value' which was not relevant.

Question 3

- (a) This question was generally answered well with most candidates being aware of the benefits of the joint venture. The better responses explained these benefits in the context of Greaves and Hurst.
- (b) This was well answered with many candidates scoring full marks. A few responses erroneously added the commission to the sales income.
- (c) The ledger accounts were generally well prepared with most responses using the required double entry skills.

- (d) This was well answered with most responses including the required advice and then providing a reasonable justification.

Question 4

- (a) Most candidates demonstrated knowledge of the formulae but few obtained full marks. Some responses didn't adjust for the preference share dividend. The better responses used the formulae correctly and figures were given to two decimal places.
- (b) Evaluations of the calculated ratios were acceptable. The better responses gave developed evaluation of points, rather than simply stating 'higher' or 'lower'.
- (c) Many responses obtained one of the two marks available for explaining gearing. The ratios calculated for part (ii) were often incorrect. Analysis of the ratios was well answered.
- (d) This was well answered with nearly all candidates providing the required advice and appropriate reasons for their decision.

Question 5

- (a) This was generally answered well. The better responses included the change in production as a reason for flexing.
- (b) Many candidates prepared a statement based on the budgeted figures. Those that did prepare a statement based on the actual units often incorrectly adjusted the fixed overhead and consequently there were few fully correct statements.
- (c) The variances were invariably calculated correctly.
- (d) This question was also well answered with many fully correct solutions.
- (e) Most candidates provided two appropriate reasons for the adverse variance.
- (f) This was well answered and many candidates did apply the given additional information rather than providing a generic response.

Question 6

- (a) This was well answered with a significant number of fully correct responses. Nearly all calculated the costs driven by orders and production runs correctly but many did make errors with regard to the costs driven by machine maintenance.
- (b) Most candidates calculated the overhead cost for the products correctly.
- (c) This question was not answered well. Many responses included limited explanations. The best responses gave an appropriate explanation for the observed changes.
- (d) This was well answered with nearly all candidates giving a recommendation and then appropriate justification by making valid calculations and considering relevant factors. A high number of candidates scored at least five of the six available marks.
- (e) Most candidates provided two appropriate reasons.

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<p>Paper 9706/32 Structured Questions</p>

Key messages

- ∞ When presenting work always ensure that full workings are shown. Not showing them often leads to marks not being awarded.
- ∞ When presenting financial statements such as manufacturing accounts, statements of financial position and income statements, always correctly label terms such as transfer price, profit for the year and non-current assets. Labels should be in line with those identified by International Accounting Standards (IAS).
- ∞ Avoid use of abbreviations as labels.
- ∞ When presenting answers to ratio questions always ensure that the correct prefix (say, \$) or suffix (say %) are shown against the answer.

General comments

Generally the paper was well attempted. There are some areas where improvements could be made. These have been considered below.

Comments on specific questions

Section A: Financial accounting

Question 1

This question was based on the preparation of a manufacturing account and income statement. Generally it was well done.

- (a) With the manufacturing account the cost of raw materials was often not labelled. Likewise, the final figure was often labelled 'cost' or 'market value', neither of which are the correct terms. The main arithmetical error was the incorrect split of the reallocation of the rental cost.
- (b) In some cases candidates incorrectly labelled some items, or provided no labels at all. Few candidates used abbreviations as labels which should be avoided. The final figure should be labelled as profit (or loss) for the year, in line with IAS terminology.

Arithmetically, the main issue was the incorrect calculation of the provision for unrealised profit. The opening and closing inventories of finished goods were given at cost and transfer value respectively. This point was often missed by candidates.

- (c) Most candidates correctly identified the three elements of inventory and adjusted the closing inventory for the unrealised profit.
- (d) Candidates were required to explain why the owner should create a provision for unrealised profit. Answers were often general using terms such as 'to ensure profits and assets are not over or understated'. Specific mention of profits being overstated and/or inventories or current assets not being overvalued are far more specific to the situation.

- (e) Answers here were mixed. Most candidates could only correctly identify one advantage and one disadvantage to Richard Ang of helping his sister.

Question 2

The calculation of accounting ratios before and after an investment opportunity was required. This question was not well done. Before starting the calculation of the ratios candidates had to work out the profit from operations. There was no indication in the question about finance costs, yet some candidates attempted to introduce it. Other started (incorrectly) with the retained earnings figure. In all cases, credit was given throughout the question where candidates were consistent in their approach.

In some cases candidates did not show the correct suffix or prefix with the ratio calculated.

- (a) Candidates were required to calculate five ratios, three of which are specific to A Level. Many candidates were unable to calculate the ratios. Adding a suffix or prefix was often not done by those who did.
- (b) Candidates were required to calculate changes in share capital and reserves as a result of a proposed investment. This was reasonably well done. The most common error was in calculating the new retained earnings where candidates often started with the wrong figure. The closing retained earnings from the summarised statement of financial position should have been the starting point.
- (c) Using the information calculated in (b) candidates were required to rework two of the ratios. Many candidates went back to the original data in part (a).
- (d) Candidates were asked whether or not the company should proceed with the proposed investment. Candidates were able to make a decision rather than hedge about the results.

Question 3

This question was concerned with IAS and audit requirements for a business. Responses were mixed, however there was some good answers.

- (a) This was a knowledge based question asking candidates to state reasons why a business should comply with IAS. Responses were generally good, with many identifying at least three of the reasons.
- (b) Candidates were asked to explain stewardship and the role of the directors. Few identified that the directors are the stewards of the shareholders. Less still went on to explain the requirement of the directors to report to the shareholders.
- (c) A revised statement of financial position was required resulting from information provided to the auditor. This considered not only candidates knowledge of IAS and audit, but also basic double entry. The areas which required changes were the non-current assets, trade receivables and retained earnings. This was reasonably well attempted.

Many candidates incorrectly adjusted the cash and cash equivalents, believing that, in particular the probable loss of the legal case required a payment to have been made. A significant number also brought into the non-current assets the machinery which had been purchased at the start of the year. This had already been included in the non-current assets. The issue was it should now be subject to impairment loss and the adjustment made should have reflected this.

- (d) Candidates were asked to explain the adjustments they had made in part (c). This obviously followed their answer and a significant number correctly identified the relevant IAS which applied to their adjustment.
- (e) Finally candidates had to discuss the advantages and disadvantages to Jack of having his accounts audited. Answers here were too general, simply stating the advantages and disadvantages of an audit. The answer needed to be specific to the situation and very few identified that as a sole trader there was no requirement for Jack to have his accounts audited.

Question 4

This question concerned the sale of a partnership to an existing limited company. Apart from the final part **(e)** this question was quite well done.

- (a)** Candidates were asked to explain what is meant by goodwill. A significant number stated the cause of goodwill, brand name, location and so on.
- (b)** From the given data, candidates were asked to calculate the amount paid by the purchasing company for goodwill. The most common errors were incorrectly calculating the purchase consideration and candidates using the wrong value of assets and liabilities taken over. The value which should have been used for the assets and liabilities was their 'fair value' rather than their book value.
- (c)** The error of which value of assets to take in part **(b)** was compounded in part **(c)**. Candidates were asked to calculate the profit on realisation. Again, the wrong values were often used for the net assets sold. This time it should have been the book value of the assets and liabilities, not their fair value.
- (d)** The preparation of the partners' capital accounts to close their business was generally well attempted. The most common errors were candidates bringing in the opening balances on the partners' current accounts rather than the closing balances and the inclusion of goodwill as well as the profit on realisation. The cash paid by C Limited was also included. This would have been paid into the partnership bank account, not to each partner.
- (e)** Candidates were asked to discuss the advantages to C Limited of purchasing the partnership. This was not well done. Very few candidates considered the financial benefits such as improved profits/ROCE; the fact that the partnership had been successful so its purchase would have led to higher market share or the elimination of a competitor. Most comments were about C Limited having a 'bigger' share capital and more assets. Some candidates even identified possible disadvantages, even though the question did not ask for it.

Section B**Question 5**

A question focused on standard costing.

- (a)** From the given data for 1000 units, candidates were required to produce a flexed budget. This was not well done. Most candidates did not including both the usual 1000 monthly units and the additional 800 units, thus not working out total costs for 1800 units.
- (b)** Candidates then had to calculate two labour and two material variances for the month. These were reasonably well attempted.
- (c)** A reason for the materials usage and materials price variance was asked for. In respect of material usage, many gave a standard answer of lower quality materials, despite the data indicating that the materials were of the usual quality, so could not have had any impact on the variance.
- (d)** A decision on a proposal put forward by management was required. This was generally well attempted. Most recalculated the labour variances and considered the training costs, finally making a definite decision.
- (e)** Finally a knowledge based question on the advantages to a business of using standard costing as asked. This was not well attempted. Setting of budgets, identifying variances and setting prices are the three major advantages and should have been stated.

Question 6

- (a) Candidates were required to show the change in cash flows resulting from the purchase of a new machine. This was not well done, with the majority of candidates including both the existing cash inflow and the additional cash inflow as one total. Only the additional net cash inflow was required.
- (b) That said, the remainder of the question was based on the results the candidates had provided in answer to part (a), thus some good marks for the question were achieved. In this section most calculated the payback period based on their own figures, though the answer should have been rounded up to the next whole month or day.
- (c) Most correctly identified reasons why payback is used. It should be noted though that it is based on cash and not profit, thus it was not possible to award marks for comments relating to payback identifying the profitability of a project.
- (d) The calculation of the net present value was also based on the answer provided in part (a). Thus, again some good marks were achieved. The only real issue was some candidates not labelling their final answer as 'net present value'.
- (e) Most correctly calculated an IRR for the project. The two main issues were the incorrect use of the formula, particularly when calculating the denominator where the figures should have been added together, and not providing an answer to three decimal places despite being asked to do so in the question.
- (f) Most earned full marks for stating which machine Tisha should buy.
- (g) This was not well done. Many candidates went back to discuss the factors already considered, despite the fact the question specifically stated they should be ignored.

ACCOUNTING

<p>Paper 9706/33 Structured Questions</p>

General comments

Generally, candidate performance was reasonable. Responses to numerical questions are generally better than responses to the written questions.

Comments on specific questions

Question 1

- (a) Most candidates were able to state two required objectives.
- (b) This was generally well answered with most candidates scoring reasonable marks. Some responses incorrectly adjusted for depreciation which was charged to cost of sales. The better answers correctly accounted for the closing inventory. Some responses included incorrect adjustments for depreciation on motor vehicles. The best responses were laid out clearly in an appropriate manner.
- (c) This was very well answered with many candidates scoring full marks.
- (d) This was not answered well. Many responses provided advice. Only the better responses included a well explained justification.

Question 2

- (a) Most candidates adjusted the trade receivables as was necessary. The better responses accounted correctly for the rental deposit and rent prepayment. Relatively few responses included application of IAS37.
- (b) Responses to this question were mixed. The better responses explained how both items 1 and 2 should be treated. A number of responses had no appropriate explanation.
- (c) This was well answered with nearly all candidates providing an explanation.
- (d) This question was not answered well with many responses not answering the question posed.
- (e) Many responses to this question included a recommendation about whether the method should be changed. The better responses then gave a clear justification for this. A significant number of responses included the statement 'lower of cost and net realisable value' which was not relevant.

Question 3

- (a) This question was generally answered well with most candidates being aware of the benefits of the joint venture. The better responses explained these benefits in the context of Greaves and Hurst.
- (b) This was well answered with many candidates scoring full marks. A few responses erroneously added the commission to the sales income.
- (c) The ledger accounts were generally well prepared with most responses using the required double entry skills.

- (d) This was well answered with most responses including the required advice and then providing a reasonable justification.

Question 4

- (a) Most candidates demonstrated knowledge of the formulae but few obtained full marks. Some responses didn't adjust for the preference share dividend. The better responses used the formulae correctly and figures were given to two decimal places.
- (b) Evaluations of the calculated ratios were acceptable. The better responses gave developed evaluation of points, rather than simply stating 'higher' or 'lower'.
- (c) Many responses obtained one of the two marks available for explaining gearing. The ratios calculated for part (ii) were often incorrect. Analysis of the ratios was well answered.
- (d) This was well answered with nearly all candidates providing the required advice and appropriate reasons for their decision.

Question 5

- (a) This was generally answered well. The better responses included the change in production as a reason for flexing.
- (b) Many candidates prepared a statement based on the budgeted figures. Those that did prepare a statement based on the actual units often incorrectly adjusted the fixed overhead and consequently there were few fully correct statements.
- (c) The variances were invariably calculated correctly.
- (d) This question was also well answered with many fully correct solutions.
- (e) Most candidates provided two appropriate reasons for the adverse variance.
- (f) This was well answered and many candidates did apply the given additional information rather than providing a generic response.

Question 6

- (a) This was well answered with a significant number of fully correct responses. Nearly all calculated the costs driven by orders and production runs correctly but many did make errors with regard to the costs driven by machine maintenance.
- (b) Most candidates calculated the overhead cost for the products correctly.
- (c) This question was not answered well. Many responses included limited explanations. The best responses gave an appropriate explanation for the observed changes.
- (d) This was well answered with nearly all candidates giving a recommendation and then appropriate justification by making valid calculations and considering relevant factors. A high number of candidates scored at least five of the six available marks.
- (e) Most candidates provided two appropriate reasons.