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ACCOUNTING

Paper 9706/11
Multiple Choice

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

General comments

A total of 1130 candidates took this paper. The results were in line with the June paper, but still disappointing with only 46% of candidates achieving a score of 15 or more out of 30. The median score was 14, with the mean slightly higher.

Some questions proved easy to candidates, with **Questions 12, 16, 17, 21, 23** and **29** answered correctly by 60% or more of candidates. There were a number of questions which proved difficult and these are considered below.

Specific questions

Question 1

This was a straightforward asset disposal question. The mistake most candidates made was to deduct the costs of disposal from the proceeds when in fact it should have been added.

Question 4

This question considered the situation of a business moving a previously capital item into a sale item. Most candidates opted for it to be debited from computers (capital account) to inventory. However, the correct solution was to debit purchases. The balance on the opening inventory account would have been brought forward from last year and thus could not have been altered. The computer was sold before the year end and thus could not have appeared in year end inventory.

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Question 5

This asked candidates to calculate the percentage bad debt provision. The correct answer was **C**, although more candidates opted for **D**. There was an adjustment needed for the bad debt written off.

Question 11

The candidates were asked to identify three items in a manufacturing account. The error which most made was to adjust the increase in the work in progress the wrong way. An increase in work in progress means the closing inventory will be higher, thus reducing the charge to the manufacturing account.

Question 15

The issue here was whether or not an adjustment was needed for the increase in goodwill from $10 000 to $40 000. Most opted to do this and answered (incorrectly) **D**. However the question gave no indication of a change in profit sharing ratios or the introduction of a new partner. Thus all that needed to be done was to write off the existing goodwill ($10 000) in the existing profit sharing ratios.

Question 19

A common error which candidates made here was to include the full year's interest on the debenture rather than the three months which was the time which the debenture was in existence.

Overall comment

Overall candidates seemed to find the paper difficult. The questions reviewed above seem to indicate more that candidates may not be reading the question fully and thus making careless errors, rather than a lack of knowledge.

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ACCOUNTING

Paper 9706/12
Multiple Choice

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

General comments

A total of 7112 candidates took this paper. The results were slightly lower than the June sitting. 56% of candidates achieved a score of 15 or more out of 30. The median score was 15, with the mean slightly higher.

Some questions proved easy to candidates, with **Questions 1, 2, 4, 6** and **16** answered correctly by 70% or more of candidates. There were some questions which from the data proved challenging for candidates. These questions are considered below.

Specific questions

Question 3

This was a straightforward identification of capital and revenue expenditure. Candidates should have deducted the labour and materials used for the extension, identifying it as capital expenditure. Most ignored this.

Question 8

The answer to this question was **C** ($6 000 x 90%). There was no indication in the question that the transaction took place at the year end or that the items were to be included in inventory. Thus, the transaction must be recorded at its actual value.

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Question 15

This should have been a simple calculation of adding together $140 000 + $90 000 + $12 000 = $242 000, which was the answer.

Question 21

The question asked candidates to identify when a customer should have their credit limit reduced. The implication here is that the customer will be less likely to pay their account on time or at all. Thus candidates needed to identify something negative, which was the customer losing a major contract **(D)**.

Overall comment

On balance this paper was no more difficult than previous sittings and should have caused little difficulty. In fact, despite the questions reviewed above this was the case.

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Paper 9706/13
Multiple Choice

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

General comments

A total of 277 candidates took this paper. The results were excellent, with 213 (77%) of candidates achieving a score of 15 or more. The mean mark was 18. It seems fairly obvious to say that most of the questions proved easy. There were only three questions which proved difficult for candidates. These are reviewed below.

Overall, this was a well attempted paper.

Question 5

The question asked for candidates to calculate the net adjustment for bad and doubtful debts. The key word here is **net**. Thus the increase in the adjustment, the bad debt written off and, more importantly, the bad debt recovered needed to be adjusted, making the answer $2900 and not $3000 which is what most went for.

Question 8

Candidates who thought through the double entry would have come up with the correct answer. The key was to add $1600 being the value of the goods after the trade discount then reduce the current assets by the amount actually paid ($1520), which would have resulted in the current assets being $28 080. This figure was then reduced by the bad debt of $400 written off.

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Question 13

This topic always seems to cause difficulty with candidates. From the statistical data it appears that most candidates guessed at the solution. The only thing which would be affected by the errors was the control account. Thus the given balance on the control account needed to be reduced by $740 and the difference between $940 and $490 ($450).

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ACCOUNTING

Paper 9706/21
Structured Questions

Key Messages

Candidates must pay attention to the written part of questions as well as the computational parts.

General Comments

Overall, the paper gave well prepared candidates the opportunity to score very high marks. Most candidates attempted all of the questions and there was no evidence of time pressure.

Comments on Specific Questions

Section A

Question 1

(a) (i) Most candidates answered this part very well. A common error was the miscalculation of the reduction in provision for doubtful debts with many candidates working out the provision without accounting for the irrecoverable debts (bad debts). Many candidates omitted the debenture interest.

(ii) Generally, this part was well answered although some candidates subtracted the retained earnings balance brought forward.

(b) Most candidates were able to produce a reasonable statement but there were very few fully correct statements. Very few candidates calculated the trade receivables entry correctly with many failing to deduct the irrecoverable debts (bad debts). A number of candidates omitted the debentures and some did not use the correct retained earnings figure.

(c) (i) Most candidates correctly identified two sources of finance.

(ii) This part was less well answered. The question asked for advantages and disadvantages but most responses just provided one answer such as 'interest would have to be paid' with regard to a bank loan.

Question 2

(a) Most candidates were able to provide the required formulae correctly. Explaining what the ratio measures and the causes of change was more difficult for the majority of candidates. Many merely restated the formulae in words and there were many long-winded responses indicating a lack of understanding.

(b) Candidates struggled to perform well on this part of the question. The requirement was to state and explain the limitations of ratio analysis but many candidates referred specifically to the ratios in part **(a)** which was not required.

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Question 3

(a) (i) Although this was a straightforward calculation many candidates were unable to make the required adjustments.

(ii) Likewise, with few exceptions, this calculation was attempted poorly.

(b) Many candidates failed to answer the question as required and wrote far too generally about factors affecting the selling price. Few compared cost and net realisable value.

(c) There were some good answers to this part although some candidates wrote about capital being the owner's investment and revenue being the sales income. Since the question was addressing expenditure such answers did not receive any credit.

(d) (i) There were relatively few correct solutions and many candidates appeared to be unable to write a journal entry as they answered with ledger accounts.

(ii) A few correct answers but a range of incorrect ones such as 'financed by', balance sheet, income statement etc.

(iii) Nearly all candidates made a reasonable attempt and there were many correct solutions. Those candidates who showed workings but did not reach the correct answer were rewarded where appropriate.

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Paper 9706/22
Structured Questions

Key Messages

Candidates should take greater care in reading the questions in both computational and discursive questions. Marks are often lost in computational questions as a result of carelessness. In discursive questions, candidates should take more time in developing their answers and in paying more attention to the scenario itself rather than producing answers from a textbook.

General Comments

Candidates are reminded that questions may be set on any part of the syllabus. It is clear that questions on marginal or absorption costing are often not answered as well as those on financial accounting.

It is very important to show workings wherever necessary as an incorrect figure not supported by 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

Most candidates showed a good understanding of the preparation of departmental accounts, though were less confident when analysing the results of the departments and making recommendations.

(a) There were some excellent departmental income statements from candidates. Most candidates were able to correctly apportion the expenses using the bases given. The direct wages, as a direct cost should have been part of the cost of sales and therefore deducted before the calculation of gross profit. Very few candidates recognised this point. A few candidates did not appear to know what a departmental income statement was and simply produced an overall income statement.

(b) The key consideration when considering whether to close the car wash department was to recognise that fixed costs would have to be reallocated to the other two departments. Many candidates discussed this point and also the fact that the business would possibly lose customers for the other departments by not offering the car wash facility. Many candidates pointed out that although the car wash was making only a small profit, it was contributing to the overall fixed costs and that closing the department would result in reduced profits for the business.

(c) Whilst there were a number of very good explanations of the differences between a bank loan and an overdraft, some candidates seemed unsure as to what an overdraft is. An important difference that was pointed out by a number of candidates is that a bank loan is most suitable for financing capital expenditure whilst a bank overdraft should usually be used as working capital or for overcoming short term needs. A large number of candidates stated that no interest whatsoever was payable on a bank overdraft.

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Question 2

Most candidates' performance reflected a good basic understanding of partnership accounts and goodwill and therefore achieved good marks. However, calculation of the profit before appropriation proved challenging for a large number of candidates and candidates must be more aware of which items are to appear in the partners' capital accounts and which are to appear in the partners' current accounts.

(a) Even if candidates made an error earlier in the question, marks were awarded for the share of profits providing that they were split in the correct ratio (i.e. in the ratio of capital invested), but this was often not the case.

(b) A number of candidates were unsure of how to tackle the calculation of profit before appropriation. Some candidates attempted to construct what was virtually a capital account, effectively an extract from the statement of financial position, to result in a balancing figure for profit. Unfortunately, this was not a realistic way to solve the problem. Having calculated the partners' share of the profits in the previous part of the question, this was the starting point. Adding back the partners' salaries and interest on capital and deducting the interest on drawings results in the profit for the year before those appropriations.

(c) Most candidates produced good explanations of the term goodwill, giving excellent examples of how it arises. Marks were awarded for stating that goodwill is an intangible non-current asset, a point that a great many candidates made. As the question was based on partnership accounts, references to inherent and purchased goodwill were not relevant and therefore not rewarded, despite some very good responses based on that.

(d) Producing the partners' capital accounts involved calculating and adjusting for goodwill on the basis that it was not to be maintained in the books of account. Most candidates correctly calculated and debited the value of goodwill relating to the new partnership, but a number failed to credit the original partners with their share. Candidates who netted off the effects of goodwill introduced and goodwill written off were fully rewarded with all available marks for that point.

Question 3

Whilst candidates mostly showed a good understanding of break-even analysis, other parts of the question proved to be more challenging. There was evidence of candidates not reading the question fully in order to answer parts **(b)** and **(c)**. In tackling questions of this nature, it is essential that candidates are fully aware of all of the issues before starting their responses.

(a) (i) The calculation of the weekly break-even point in units was very well done by the vast majority of candidates although some candidates failed to deduct the variable selling costs of $1.50 when calculating contribution or failed to include the fixed selling costs of $1 per unit in calculating total fixed costs.

(ii) Having calculated the break-even point in units, most candidates then multiplied this figure by the unit selling price of $35 and gained full marks. Some candidates chose to adopt the contribution/sales ratio method and often made calculation errors. Whilst both methods are acceptable, the first method is far quicker to calculate and less prone to errors.

(iii) Most candidates produced good answers but some were clearly unsure of what constituted the margin of safety.

(iv) Candidates were less sure of how to calculate the margin of safety as a percentage with a number making no attempt at this calculation.

(b) Candidates found this task more difficult. Despite the fact that the question clearly asked for the calculation of profit for the four weeks, a significant number of candidates calculated the profit for one week only. Those candidates who then multiplied their weekly answer by four were rewarded as appropriate. Only a very small number of candidates were able to arrive at the correct profit of $14 600 from the leasing option. A number of candidates did not appreciate that whilst variable would be based on a production of 500 units, fixed costs would still be based on 800 units. Consequently, a number of candidates calculated fixed production costs as $7000 and fixed selling costs as $2000. Those candidates who calculated a weekly profit figure before multiplying by four

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weeks, often failed to realise that the training costs were a one-off cost of $3000 and therefore not to be multiplied by four.

(c) Only a small number of candidates arrived at the correct profit of $7200 from the buying-in option. As the business was able to sell 800 units each week using this option, there were fewer problems for those candidates who chose to calculate a weekly profit and then multiply this by four. Some candidates did not realise that the business would have no variable production costs using this option, but that fixed production costs would still have to be taken into account.

(d) Most candidates completed this task well, referring to the fact that a big advantage was the fact that the full quota of 800 units would be available for customers and that the business would not have to pay $3000 training costs.

(e) Many candidates stated relevant disadvantages of purchasing units from a competitor, especially the fact that the quality of the product may not be as good as their own production and that the competitor may exploit Kirkton's position.

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ACCOUNTING

Paper 9706/23
Structured Questions

Key Messages

Candidates should take greater care in reading the questions in both computational and discursive questions. Marks are often lost in computational questions due to carelessness. In discursive questions, candidates should take more time in developing their answers and in paying more attention to the scenario itself rather than producing answers from a textbook.

General Comments

Centres and candidates are reminded that questions may be set on any part of the syllabus. It is clear that questions on marginal or absorption costing are often not answered as well 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

Most candidates were familiar with the preparation of financial statements for a not-for-profit organisation, though many candidates had difficulty preparing the accumulated fund for the statement of financial position.

(a) A common error on this part was to classify the wages of shop staff as a direct cost. Most candidates allocated the heating and lighting and insurance costs correctly between the fitness club and the shop.

(b) It was encouraging to note that many candidates were able to calculate the correct subscriptions figure of $45 900 for subscriptions to appear on the income and expenditure account. Many candidates took no account of the $90 interest that had been credited to the bank deposit account. This should have been included as income in the income and expenditure account. A number of candidates also failed to account for the depreciation on the sports equipment in the income and expenditure account. The difference of $9400 between the opening and closing values should have been treated as an item of expenditure.

(c) Many candidates found preparation of the statement of financial position challenging. The closing balance on the bank current account ($15 350), calculated by opening balance + receipts – payments was frequently incorrect. Many candidates also omitted to provide a correct accrual for the loan interest of $1200 ($40 000 x 6% x 6 months) in current liabilities. Calculation of the opening balance on the accumulated fund also caused problems. This was simply the total of assets minus liabilities at the start of the year. A significant number of candidates made no attempt to complete their statement of financial position with any reference to the accumulated fund.

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Question 2

Whilst most candidates were able to apply their knowledge of accounting ratios to the straightforward calculations of gross profit, cost of sales and expenses, the calculation of closing inventory and trade payables in particular, proved challenging.

(a) (i) Calculation of the gross profit, being 35% of sales, caused little difficulty.

(ii) Cost of sales (sales – gross profit) was mostly calculated correctly.

(iii) Closing inventory was not calculated correctly by a large number of candidates, involving the calculation of average inventory by dividing cost of sales by the inventory turnover. Candidates needed to show a good in-depth understanding of the ratio to undertake this calculation.

(iv) Using the figures calculated in the first three parts of this question, candidates were generally able to successfully calculate the figure for purchases.

(v) Profit for the year was determined correctly by most candidates, being 14% of sales.

(vi) Similarly, the majority of candidates were able to calculate expenses by deducting the profit for the year from the gross profit.

(vii) Candidates found calculation of the trade payables difficult. The trade payables turnover had to be applied to the purchases figure, but some candidates appeared uncertain of the formula to apply.

(viii) Candidates also found calculation of trade receivables challenging.

(b) Most candidates were able to successfully identify three users of accounting ratios other than the directors. However, overall, the responses to this question were not satisfactory. The question asked candidates to state what information the users would obtain from the ratios and generally, responses to this second part were not particularly well developed. Taking the suppliers as an example, it was not sufficient to simply state "to see if they will be repaid amounts owing". The suppliers would actually be interested in the amount of working capital; in the acid test ratio; in the company's profitability etc. Development was needed in all answers in order to gain a second mark.

Question 3

There were some excellent answers to the apportionment and absorption question, but it was equally apparent that some candidates were totally unfamiliar with this section of the syllabus. It is important that candidates fully understand the principles of absorption costing as well as perform calculations. It is apparent from a number of the answers to these questions that candidates do not fully understand the purpose of absorption costing.

(a) (i) Most candidates did well and chose an appropriate basis to apportion the costs.

(ii) There were a number of good answers to the task of apportioning the stores costs into the two productive centres.

(b) It was encouraging to note that most candidates selected the correct basis for each department, i.e. machine hours for the machining department and direct labour hours for the finishing department.

(c) Many candidates appeared uncertain of where to go after calculating the forecast overhead absorption rate (OAR) and the results were rather disappointing. The amount of overhead absorbed is equal to the actual hours x the forecast overhead absorption rate calculated in part **(b)**. Many candidates divided the actual overheads incurred by the actual machine hours or direct labour hours. It is important that candidates understand the reason for calculating a forecast overhead absorption rate. The figures used by these candidates would not be known at the time the OAR was to be calculated and used i.e. to assist in pricing a product or a job.

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(d) A disappointing performance in part **(c)** had an adverse impact on this part of the question too. Many candidates attempted to calculate an hourly rate of under or over absorption rather than calculating the under or over absorption for each production department.

(e) Performance on the final part of the question was again rather unsatisfactory. A significant number of candidates were of the opinion that over absorption for example was "when the company forecast its costs to be greater than they are". This is unfortunately not explaining what over absorption is or how it arises.

In simple terms, over absorption is caused when the overhead absorbed is more than the overhead incurred. The most common cause of over absorption is when actual output is different to forecast output and thus more direct labour hours and more machine hours are used.

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ACCOUNTING

Paper 9706/31
Multiple Choice (Supplement)

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

General comments

The paper was taken by 1126 candidates, of which only 48% achieved a score of 15 or more. The median score was 14.55, with the mean slightly lower.

Some questions proved easy to candidates, with **Questions 4, 7, 10** and **23** answered correctly by 65% or more of candidates. These question, with the exception of question 23, mainly focused on financial accounting. Some questions did prove difficult and they are reviewed below.

Specific questions

Question 1

Questions relating to unrealised profit prove challenging to candidates. The problem appears to be whether or not the inventory is valued at cost or mark up. The key is really to check both. If the answer is a whole number then that is the most likely valuation. In this case the closing inventory was $3000 which if divided by 1.20 gives a round figure of $2500. Thus the key is **C**.

Question 6

This question focused on redemption of shares for a private limited company. In this instance the key was **C** rather than A which is what most seemed to opt for.

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Question 14

The question considered dividend yield. Despite the fact that under IAS provisions proposed dividends are excluded from the accounts they are used to calculate the dividend yield for the year. Thus the calculation was ($3 + $1) ÷ $50.

Question 20

This required candidates to consider the break even aspect of sales. The current production would yield contribution of $4200 ($7 x 600), leaving a further $800 to break even. Dividing $800 by the order of 200 units gives $4, which when added to the variable cost of $19 per unit gives a selling price of $23 which was the key.

Question 24

The required purchase of raw materials will involve consideration of both the finished units which will reduce by 1000 units (3000 kilos of raw material) which will not need to be made and thus no raw materials purchased. The increase of raw materials of 2000 kilos will need to be purchased. Thus to make the budgeted sales of 12 000 units which will require 36 000 kilos the business will need to purchase 35 000 kilos (36 000 + 2 000 – 3 000).

Overall comment

Overall the performance of candidates on this paper was average. All that is required by candidates is to look at all aspects of the question. Eliminate obviously incorrect answers which would leave only the correct answer to focus on.

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ACCOUNTING

Paper 9706/32
Multiple Choice (Supplement)

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

General comments

Overall the results were not as good as in the previous sitting with only 53% of candidates achieving a score of 15 or more out of 30. The median score was 15, with the mean slightly higher.

Some questions proved easy to candidates, with **Questions 4, 8** and **11** answered correctly by 70% or more of candidates. There were some questions which proved difficult for candidates and these are reviewed below.

Specific questions

Question 3

This involved the transfer of items from manufacturing to trading at a profit and the subsequent adjustment for unrealised profit. This topic always seems to be challenging for candidates. The inventory was 20% of the production value of $93 500, which equals $18 700 at transfer price. Dividing this figure by 1.1 (100% + 10% mark up) gives $17 000. Thus the answer is **C**.

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Question 10

The question centred on treatment under IAS provisions. The focus here is whether the outcome of the legal case is possible or probable. The question indicated a 40% chance of losing, thus possible. The key is therefore **D**, show as a note to the accounts but no provision.

Question 12

In this question only two events will reduce the gearing: the increase in the share capital by a rights issue and the repayment of the debenture. Thus the key was **D**. Quite a number opted for C, including the transfer to the general reserve. There was no indication that this was made from the profit for the current year. Had that been stated then the key would, indeed have been C.

Question 22

The answer here is **A**. This is found by multiplying $15 by the actual units produced 1150 = $17 250 and deducting this from the actual figure of $18 400. A significant number of candidates wrongly opted for C, multiplying the $15 by the budgeted output.

Overall comment

Whilst the results may appear disappointing compared to last time a significant number of candidates did well on the paper.. The IAS provisions are still something which teachers need to ensure candidates are familiar with before the next examination session.

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ACCOUNTING

Paper 9706/33
Multiple Choice (Supplement)

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

General Comments

The performance of candidates on this paper was very encouraging with 75% of candidates achieving a score of 15 or more out of 30. The median score for the paper was 19 with the mean slightly lower.

A significant number of questions proved easy to candidates, across the spectrum of both financial and costing, again very encouraging as costing always seems to prove challenging to candidates. Very few questions proved difficult. They are reviewed below.

Specific Questions

Question 2

This should not have proved difficult as the inventory is valued at cost ($15 000 + 2/3 x $120 000 = $95 000). The question really was whether storage costs can be included as part of the cost of inventory. The answer is no, and thus should not have been brought into the valuation, which unfortunately most candidates did.

Question 9

This was a routine takeover calculation. The purchasing company is taking over all the assets and liabilities of the firm acquired, at a valuation of $210 000 including goodwill. The cash and debenture deducted from this figure meant that $150 000 was settled by shares. Dividing the $150 000 by 125 and multiplying by 25 gives the share premium of $30 000 **(B)**.

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Question 16

The key to this question was where does the $10 000 premium on the redemption of debentures come from? No indication is given in the question, but it is likely that a company will use its share premium account first as this is the least flexible reserve.

Overall comment

This was a very good result for those taking the paper.

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ACCOUNTING

Paper 9706/41
Problem Solving (Supplement)

Key Messages

Candidates should prepare fully across all areas of the syllabus when attempting this paper.

General Comments

Overall performance was reasonable with some very good scripts. An improvement was noted for the costing question at this diet with greater understanding of the topic now being shown by more candidates. The non-computational parts were also answered to a higher standard than previous sessions.

There was no evidence of time pressure and nearly all candidates answered the three questions fully.

Comments on Specific Questions

Question 1

(a) Very few candidates answered this part of the question as required with many making entries for all of the operating activities.

(b) Most candidates did prepare the statement in accordance with IAS7 but there are still some candidates who continue to use the 'old' format. Generally the statement was prepared to an acceptable standard with entries being placed in the correct sections but relatively few candidates correctly reconciled the opening and closing bank balances at the end of the statement.

(c) Most candidates answered this part well using the layout of the given extracted note.

Question 2

(a) The realisation account was well prepared by most candidates with the correct split being calculated.

(b) The bank account, however, was less well prepared with many candidates incorrectly splitting the balance in the profit sharing ratio and seemingly being unaware of the relationship between the capital accounts and the bank account.

(c) Most candidates made the correct entries to the capital accounts. A few were not able to deal correctly with the debit balance on Fonzie's account.

(d) Most candidates knew the reasons why a partnership may be dissolved.

Question 3

(a) Most candidates were able to correctly calculate the contribution although some marks were lost by candidates apparently not reading the question which clearly asked for both unit and total contribution.

(b) Most candidates were able to make this calculation correctly.

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(c) Many candidates did not perform well on this part. Some candidates did show a good understanding and obtained full marks but many are still giving answers in non-monetary denominations and do not understand the inter-relationship between the variances.

(d) Most candidates scored reasonable marks by using their own variances correctly.

(e) Candidates generally calculated the difference between contribution from parts **(a)** and **(d)**. The question asked for the change in contribution due to the change in supplier and very few candidates addressed this.

(f) The majority of candidates made a good attempt on this part but there were also some answers which did not focus on the question as set.

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ACCOUNTING

Paper 9706/42

Problem Solving (Supplement)

General comments

The majority of candidates were able to access the paper and attempt each question. There were no apparent timing issues. Although at times there were obvious gaps in knowledge, many candidates produced reasonable answers to each question with some excellent well prepared and logically thought out scripts. The paper illustrated how important it is to show all workings even for straight forward calculations. This was especially important for **Question 3**. If workings are completed on another page these must be included within the booklet. For the most part the candidates who did well within each question were those who used standard clear layouts, for example columnar capital accounts in **Question 1**, relevant subtotal labels in the statement of cash flows in **Question 2** and clear statements showing contribution, units and profit in **Question 3**.

Comments on specific questions

Question 1

(a) A variety of responses. Most candidates produced an account although a few prepared a working only. Many candidates included both the amounts for trade receivables and trade payables as well as the bad debt and discounts. A common error was to include the cash and cash equivalents balance of $9250 or the loan of $40 000. Most candidates split their profit/loss on realisation in the correct ratio 4:3:1.

(b) Most candidates recorded the receipts and payments on the correct side of the account, however many included the bad debt and discounts instead of the full amount received from the trade receivables of $52 765 and the full amount payable to the trade payables of $45 675. Other common errors included recording the loan of $143 000 as a receipt and the profit or loss on realisation within the bank. A few candidates also split any balance on the account in the ratio 4:3:1 instead of taking the figures from the capital account.

(c) A clear layout as vital here, although most candidates prepared an account in a columnar form a few produced just workings for the closing bank balances. The most common error was to bring down balances for the partners rather than close the accounts down and not transfer to the bank account. The own figure rule applied here with figures from the realisation account. An alternative acceptable approach was to produce current accounts and then transfer the adjusted balances to the capital accounts. Other candidates recorded the loan repayment to Alvin as a payment on the bank account. This was accepted although unfortunately a few candidates also recorded the loan on the credit side of the capital account as well.

(d) This part was answered well although many candidates did not identify the goodwill as an intangible non-current asset. Other candidates did not give the full details on the shares, namely the amount of shares, the category of share and the nominal value. A clear distinction between the equity and the debentures and loan within the non-current liabilities was also required.

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Question 2

(a) This part was quite well answered although quite a few candidates did not know the layout for a statement of cash flow under IAS7 and instead presented their answer using the layout from FRS1. Common errors included using the profit for the year attributable to equity holders instead of profit from operations. Most candidates correctly identified the depreciation charge for the year from the note attached to the accounts on non-current assets. The dividends paid during the year of $49 000 was correctly calculated although a few candidates put it through twice. The main area of concern is the lack of labels on the sub sections of the statement and the cash and cash equivalents movement and reconciliation at the end of the statement.

(b) (i) This part was often very well done with many candidates being able to distinguish between a cash budget and a statement of cash flows e.g. stating that cash budget used predicted or forecast information whereas statement of cash flows used historical information.

(ii) Although many candidates found this part harder to answer than the previous part as they were unsure what the statement of cash flows were used for, others were able to give valid uses e.g. providing information for other interested parties e.g. when applying for a loan.

(c) There were varied answers to this question. Candidates either commented incorrectly on the calculation of the net book value of a non-current asset after subtracting depreciation or they correctly stated that impairment arose when the carrying value was higher than the higher of the recoverable amount and the value in use.

Question 3

(a) (i) The majority of candidates answered this question well. The most common error was to split the fixed costs of $130 000 equally between the two types of desks.

(b) This part was answered well. Most candidates could correctly calculate the contribution per kilo (although some stated that it was $4.30 not $4.33 for the superior desk. The method to rank the desks and to allocate the limiting factor between the desks was usually correctly applied so that the correct profit of $17800 was calculated. A common error was to include fixed costs within the calculation of the contribution.

(c) This was not answered as well as **(a)** and **(b).** Some candidates seemed unsure of the correct approach to be used and a common error was to calculate the change in the total kilos available not the increase in the contribution per desk and the resulting change in contribution per kilo. Often candidates did not discover that the ranking of the desks had changed and the number of desks produced had also changed and instead incorrectly used the same amount of desks as they used in part **(b)**. Another common error was to include the depreciation for the year of $12 000 as a fixed costs rather than just one month.

(d) This was well answered if the candidate referred to their own calculation in parts **(b)** and **(c)**. Most candidates based their decision on whether profit had increased or decreased.

(e) (i) The majority of candidates were able to identify two sources of finance suitable for the company. Common errors were to state that the company could use retained profits, to lease assets or to use a bonus issue of shares. Candidates often stated a rights issue or a bank loan.

(ii) If candidates made sensible selections in part **(e)(i)** this part was straight forward, although most candidates found disadvantages to the sources of finance easier than identifying advantages.

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ACCOUNTING

Paper 9706/43
Problem Solving (Supplement)

General Comments

There were no apparent timing issues and the majority of candidates were able to access the paper and attempt each question. Although at times there were some obvious gaps in candidate knowledge, the majority of candidates produced reasonable answers to each question. There were some excellent well prepared and logically thought out scripts. **Question 3** on budgets was the best answered question, being clearly laid out with all workings clearly shown. **Question 2** was surprisingly the least well answered question as many candidates appeared unsure of which approach to take. It cannot be emphasised enough how important it is to show all workings even for straight forward calculations. If workings are completed on another page these must be included within the booklet.

Comments on specific questions

Question 1

(a) The majority of candidates answered this part well. Different approaches were used with some candidates showing two entries for goodwill, others netting the goodwill off and still others including the revaluation within the adjustment. As long as the workings were clearly shown each approach was acceptable. The most common error was to include the interest on Chandra's loan although this did not commence until after the date of the capital accounts preparation. A few candidates forgot to allocate the balance on Chandra's account to a loan account and instead brought the balance down even though Chandra had left the partnership.

(b) This part of the question was generally either extremely well or poorly done. Many candidates did not split the income statement into two parts covering the 9 months and 3 months periods. Others did not split until after adjusting for the annual wages, rent, heat and light and sundries. This approach was acceptable. A clear layout was required for this part of the question especially to show the amounts allocated to the individual partners for interest on capital and profit share.

(c) Most candidates answered this part well. The most common answers included the partnership receiving more capital and knowledge from the new partner. Fewer candidates mentioned spreading the risk or sharing losses.

Question 2

(a) This part was quite well answered provided the candidate understood the required adjustments for bonus and rights issues. The balances on the ordinary and preference share capitals were usually calculated correctly, as was the share premium balance. The most common error was to include the payment of the dividend on the redeemable preference shares within the retained earnings calculation even though the question stated that this was treated as a financing cost.

(b) This part was often very well done with many correct calculations for the ordinary share capital, the share premium and the capital redemption reserve balances. Although a few candidates stated the capital redemption reserve was $90 000, being 80 000 x $1.125 rather than $80 000 using the nominal value, the most common error was to ignore the premium on redemption in the retained earnings. Most candidates spotted that the profit for the year was before paying any dividends and so included the preference dividend of $2000 within their calculation.

(c) The answers given for this part were usually very brief, for example if the business did not have enough cash in the bank to pay the dividend. Few candidates referred to the balance within the revenue reserves.

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(d) This part of the question was not answered well. Although many candidates knew how to calculate the capital redemption reserve, not many knew why one was created in part **d(i)**. In part **d(ii)** a few candidates could explain how they had created the reserve but in part **d(iii)** very few knew for what purpose a capital redemption reserve could be used.

Question 3

(a) This was well answered by the majority of candidates who showed good supporting workings and an understanding of adjustments required for the additional information. Answers were, for the most part, well presented in a suitable format. However, some candidates mixed up the discounts, miscalculated the depreciation on vehicles and did not apportion the insurance policy. The loss on disposal was often omitted from the income statement. Some candidates mistakenly produced income statements for each period rather than for the year.

(b) This part was also answered well and a good format was used by the majority of candidates. The most common errors were to omit the bad debts and the discounts allowed in the calculation of the trade receivables and / or omit the discounts received from the calculation of the trade payables.

A few candidates correctly calculated and recorded the cash and cash equivalents. However, few candidates remembered to include the other payables- interest accrued and the other receivables- insurance prepaid.

(c) Many candidates calculated the working capital cycle correctly. Others did not know the method of calculation or added the trade payables period.

(d) This part was answered well with most candidates identifying how the person in question could improve his working capital cycle, for example by introducing more capital or obtaining a loan, however some candidates forgot that the business was not a limited company and suggested selling shares. Others ignored the requirement to reduce his overdraft and suggested that he buy new more efficient equipment or undergo an advertising campaign.

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