eduresourceza.com

Downloaded from eduresourceza.com

ACCOUNTING

Paper 0452/11
Multiple Choice

There were too few candidates for a meaningful report to be produced.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

ACCOUNTING

Paper 0452/12
Multiple Choice

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

Key messages

It is important that candidates have a thorough knowledge and understanding of accounting and that they are familiar with all the topics on the syllabus.

Candidates are reminded that they should read each item very carefully. It is important to have a clear understanding of exactly what is required before selecting an option to each item.

General comments

Those candidates with a good understanding of double entry and financial statements of various types of organisation were able to select the correct key to many items on the paper.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

Comments on specific questions

Question 1

Candidates were required to select the transaction which would cause both assets and capital to increase by the same amount. In option **A** the assets and the capital would both decrease. In option **C** the liabilities and the profit would both decrease. In option **D** the capital would increase and the liabilities would decrease. The Key was option **B**.

Question 5

It was anticipated that this would be a relatively straightforward item, but many candidates were unable to select the Key. An invoice gives details of the goods supplied and shows the trade discount deducted from the list price of those goods. It also shows when the invoice is due for payment and the cash discount which may be deducted if the invoice is paid by that date. It cannot show the date payment is made. The Key was option **B**.

Question 6

When a cheque is returned due to lack of funds it is credited to the bank account and debited to the account of the customer (the reverse of the entry made when the cheque was received). Just because a cheque is dishonoured it does not mean that this is an irrecoverable debt. Option **D** was the Key.

Question 7

The vast majority of candidates appreciated that the monthly posting of the discount columns would be in the ledger accounts and would not be in the income statement. The discount columns are not part of the double entry but merely provide a convenient way of noting the discount which is then transferred into the double entry system by posting to the discount accounts in the ledger at the end of each month. The total of the discounts allowed column is debited to the discount allowed account and the total of the discount received column is credited to the discount received account (option **C**).

Question 8

When the imprest of a petty cash book is restored, the petty cashier receives an amount equal to the net amount spent. In this scenario the total expenses were $83 and total receipts were $7, so the petty cashier would receive $76. The balance to start the next month would, therefore, equal $100. Option **B** was the Key.

Question 13

The aim of depreciation is to spread the net cost of a non-current asset over the expected life of that asset. In this scenario the net cost $30 000 (the initial purchase price less the estimated residual value) was to be spread over five years. The annual depreciation was $6000, making the accumulated depreciation at the end of the second year $12 000. Many candidates incorrectly calculated the annual depreciation using only the purchase price. The Key was option **B**.

Question 14

During the financial year a trader sold an old machine at a loss of $1500 (book value less allowance made by machine supplier in part-exchange for new machine). This will appear as a loss in the income statement for the year. The new machine was purchased on the first day of the financial year so annual depreciation of $4000 (20 per cent of the cost price) would also be charged to the income statement The Key was option **D**.

Question 15

Applying the matching principle, only incomes and expenses relating to a particular financial year are transferred to the income statement. The rent receivable for that particular financial year had to be calculated. Rent of $6000 was received of which $1500 related to the previous financial year. At the end of the current financial year the tenant owed $1800. The rent receivable for the current financial year was, therefore, $6300 (option **C**).

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

Question 16

A trader received cash from a trade receivable whose account had previously been written off as irrecoverable. The correct entry to record this is to debit the cash and to credit an account for debts recovered. A significant number of candidates incorrectly credited the irrecoverable debts account. The Key was option **B**.

Question 19

There was a degree of uncertainty on the effect of an adjustment for a prepaid expense on the financial statements of a trader. It was expected that candidates would appreciate that adjusting an expense for a prepayment would increase the profit for the year in the income statement and increase the current assets in the statement of financial position. Option **B** was the Key.

Question 21

There was a degree of uncertainty of how to calculate the retained earnings from the information provided. The missing figure can be calculated using the equation A = L + C. The total assets minus current liabilities was $65 000 ($35 000 + $30 000). The ordinary share capital and the non-current liabilities totalled $50 000 ($40 000 + $10 000). The retained earnings must, therefore, equal $15 000 (option **A**).

Question 23

When a loan is received the cash book is debited and a loan account is credited. At the end of the year a receipts and payments account is prepared which is a summary of the cash book, the loan being included in the receipts. The loan is an amount owed by the club so it will be included in the liabilities in the statement of financial position. The Key was option **C**.

Question 24

The accumulated fund of a club arises from the surpluses (less any deficits) earned over the years. The decrease in the accumulated fund represents a deficit for the year of $1800. The expenses for the year were $9550 so the income must have been $7750. As the only income was from subscriptions the subscriptions must have totalled $7750. Option **A** was the Key.

Question 26

Carriage on raw materials was incorrectly classified as a factory overhead instead of part of the prime cost. This error will not affect the total cost of production as the item has been added to the costs but has simply been placed in the wrong section of the manufacturing account. The only effect will be that the prime cost is understated so Option **C** is the Key.

Question 29

The formula for calculating rate of inventory turnover is cost of sales divided by the average inventory. This trader's cost of sales was $200 000 (representing 80 per cent of the inventory). $200 000 divided by the average inventory equalled 5 times so the average inventory must have been $40 000 (Option **C**).

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

ACCOUNTING

Paper 0452/13
Multiple Choice

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

Key messages

Candidates are reminded that it is important to read each item very carefully. It is essential to understand exactly what is required before selecting an option.

A thorough knowledge and understanding of accounting is required and candidates must be familiar with all the topics on the syllabus.

General comments

Candidates with a good understanding of double entry and financial statements should have been able to select the correct key to many items on the paper.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

Comments on specific questions

Question 2

Candidates were required to select the transaction which would cause both assets and capital to increase by the same amount. In option **A** the assets and the capital would both decrease. In option **C** the liabilities and the profit would both decrease. In option **D** the capital would increase and the liabilities would decrease. The Key was option **B**.

Question 7

When a cheque is returned due to lack of funds it is credited to the bank account and debited to the account of the customer (the reverse of the entry made when the cheque was received). Just because a cheque is dishonoured it does not mean that this is an irrecoverable debt. Option **D** was the Key.

Question 8

Cash discount, irrecoverable debts and wages accrued are all recorded in the ledgers. Trade discount never appears in the ledger. This deduction from the list price of goods purchased/sold/returned only appears on the business document detailing the transaction (the purchase/sales invoice and the debit note issued/received and the credit note received/ issued). Only the net amount is posted to the ledger. Option **C** was the Key.

Question 14

The general journal is used to record transactions which are not entered in any of the other books of prime entry (sales, purchases, and returns journals, cash book and petty cash book). Interest on overdue accounts and irrecoverable debts do not involve the transfer of goods from one person to another and do not involve changing hands so these items would be recorded in the general journal. Option **D** was the Key.

Question 17

During the financial year a trader sold an old machine at a loss of $1500 (book value less allowance made by machine supplier in part-exchange for new machine). This will appear as a loss in the income statement for the year. The new machine was purchased on the first day of the financial year so annual depreciation of $4000 (20 per cent of the cost price) would also be charged to the income statement The Key was option **D**.

Question 23

Many candidates appeared to be uncertain of how to calculate the retained earnings from the information provided. The missing figure can be calculated using the equation A = L + C. The total assets minus current liabilities was $65 000 ($35 000 + $30 000). The ordinary share capital and the non-current liabilities totalled $50 000 ($40 000 + $10 000). The retained earnings must, therefore, equal $15 000 (option **A**).

Question 25

When a loan is received the cash book is debited and a loan account is credited. At the end of the year a receipts and payments account is prepared which is a summary of the cash book, the loan being included in the receipts. The loan is an amount owed by the club so it will be included in the liabilities in the statement of financial position. The Key was option **C**.

Question 27

The accumulated fund of a club arises from the surpluses (less any deficits) earned over the years. The decrease in the accumulated fund represents a deficit for the year of $1800. The expenses for the year were $9550 so the income must have been $7750. As the only income was from subscriptions the subscriptions must have totalled $7750. Option **A** was the Key.

Question 32

The formula for the calculation of the current ratio is current assets : current liabilities. Option **A** would result in both the current assets and the current liabilities decreasing, but would not improve the current ratio. Options **C** and **D** would affect individual current assets (the trade receivables and the bank/cash) but not the

Downloaded from eduresourceza.com

Downloaded from eduresourceza.com

total current assets. Option **B** would increase the non-current liabilities and also increase the current assets so the current ratio would increase. Key was Option **B**.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

ACCOUNTING

Paper 0452/21
Paper 21

There were too few candidates for a meaningful report to be produced.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

ACCOUNTING

Paper 0452/22
Paper 22

Key messages

Candidates are recommended to develop a broad approach to the syllabus so that they are conversant with financial accounting statements and the underpinning techniques used to generate them. The foundation is a knowledge of primarily ledger accounting that draws upon source documents and books of prime entry. A clear understanding of how the information flows in all accounting systems provides a sound platform for all numerical and written questions throughout the paper.

General comments

Established statements such as an income statement, statement of financial position and cash book were well answered. The link from the cash book entries into the ledger accounts as in **Question 4** requires routine practice and this is an area of the syllabus where higher marks could have been achieved.

Comments on specific questions

Question 1

Income statement, working capital and financing options for a sole trader.

(a) The preparation of this income statement required the usual adjustments covering accruals, prepayments, depreciation and the identification of capital expenditure incorrectly included within the repairs figure. Common errors were to omit carriage inwards from within the trading account, include it after closing inventory, or to deduct it from the cost of sales. Depreciation was calculated after adding back the $4000 representing the additional attachment for machinery. Without this adjustment, an incorrect depreciation figure of $4720 was the result. Many candidates made this miscalculation but despite these errors still achieved 8 or more of the 12 marks available.

(b) This short question worth three marks needed a simple calculation of the working capital for a sole trader based upon the trial balance and adjustments for accruals and prepayments. Working capital is calculated as current assets minus the current liabilities. Much too often non-current assets and capital were included, consequently corrupting the answer. A further misinterpretation was to treat the $4100 bank balance as a current asset instead of being an overdraft. All credit items in the trial balance can only be revenue or liabilities. This was a quite common error that led to the overdraft being placed in the wrong part of the calculation.

(c) The final part of this question required a balanced discussion between two options for purchasing new machinery. Good answers identified clearly that option 1 was interest free with a disadvantage being that that the credit was payable after 60 days. This should have raised an issue of how much working capital would be available to repay the credit. Very few candidates recognised that the sole trader (BC) already had an overdraft so this may prevent the owner from obtaining a bank loan or credit in the future.

This style of question ideally requires a point for and against each option. Weaker answers would focus only on the length of time of the two options or solely focused on one option to the exclusion of the other.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

Question 2

Books of prime entry, purchase ledger control account and changes to an overseas supplier.

(a) This simple table required the identification of the book of prime entry to be entered from a range of accounting items. Answers were generally quite weak and half marks represented a good outcome. Discount received from credit suppliers and purchases returns were the most often correctly seen answers. It is important to emphasise the role of the 'books of prime entry' and to link with the source of information recorded within them.

(b) The question required an explanation of how a contra entry is treated in the ledger accounts. Candidates had some idea of how the transactions are posted into the ledgers but found it difficult to explain the reasoning behind the entry. Good candidates could give a clear debit and credit entry either within the sales and purchases control accounts or as transfers between the cash and bank accounts.

(c) A purchases (or sales) ledger control account is always popular with candidates as the logic behind the account names often indicate whether they are debit or credit entries. Good candidates with a sound knowledge of double entry bookkeeping will often gain full marks for this type of exercise. Weaker candidates would confuse and reverse the bank and purchases entries, others would omit the contra to the sales ledger. All entries require a date, name of the corresponding account and the amount. Marks were frequently missed for incorrect account names. Examples such as 'cash paid to credit suppliers' and 'interest charges by credit suppliers' are descriptive actions and only 'cash' and 'interest charges' are recognised account names. A common error was to include cash purchases of $240. Cash transactions will not be recorded in the purchase ledger and therefore will not be entered into the control account.

(d) This question posed the scenario of purchasing all goods exclusively from a new overseas supplier in exchange for a monthly discount upon purchase price. Answers frequently mentioned savings, lower costs, cheaper or extra expenses without pointing out the impact on cost of goods sold, gross profit, or selling price. More consideration could have been given to expenses that might rise or occur, such as the maintenance of prices in the future or their volatility due to currency fluctuations. Marks were gained regularly for considering the impact of delayed delivery dates and potential quality issues would have upon MG's own customers if this order was accepted.

Question 3

Updating the cash book, bank reconciliation statements, customer discounts.

(a) The updating of the cash book followed by a reconciliation statement is a regular procedure for all businesses. The purpose is to ensure that any entries paid directly by the bank such as standing orders, direct debits and bank charges are included into the accounts of MG. Far too many answers included cheques from JW and TH that had been entered previously. These transactions will form part of the reconciliation statement.

Other common errors were the use of incorrect labels. Standing order and dishonoured cheques do not signify the required double entry for posting to the account. In this case 'rates' 'RJ' and 'insurance' were the correct narratives.

(b) The bank reconciliation statement has a prescribed format that must be followed as evidence for audit and good practice purposes. It is not a ledger account or a statement that can be individualised. This could be considered as a challenging area of the syllabus for many candidates as unpresented and uncredited cheques (deposits) were often omitted and items being included such as rates. The aim of the statement is to reconcile and agree the balance in the cash book with the balance shown in the bank statement. Many candidates did not appreciate this and were unable to make this link between **parts (a)** and **(b)** of this question.

(c) The purpose behind the bank reconciliation statement has been identified above. Two specific reasons were required here but vague answers such as 'find errors' or 'prevent fraud' indicated a lack of awareness of the specific reasons for the preparation of the statement. It is beneficial to give practice in combined activities of updating the cash book and working from the bank statement to aid understanding and the ability to explain why the statement is produced.

Downloaded from eduresourceza.com

Cambridge Assessment International Education
© 2022

Downloaded from eduresourceza.com

(d) Standard textbook knowledge was required for the reason why cheques will be dishonoured. Good answers were given here such as insufficient funds and words and figures did not agree.

(e) The difference between a standing order and direct debit payment by the bank caused considerable difficulties. Incorrect answers referred to electronic or debit card transactions and missed the key points of fixed and varying amounts and fixed and varying dates.

(f) The last part of this question asked candidates to consider whether MG should consider offering a potential new customer a 5 per cent discount on any orders placed. Full marks were rarely seen. Many answers recognised that sales and profit would increase but did not envisage the impact this would have upon existing customers. The outcome was often a one-sided approach and a missed opportunity for candidates to access the recommendation mark.

Question 4

Posting entries from the cash book into ledger accounts, extract from the statement of financial position and irrecoverable debts and their provision

(a) This question included five ledger accounts and required a series of entries to be made from the cash book that totalled 13 marks. There were significant examples of 'no response' or completely incorrect answers. Entries were often reversed, omitted or incorrect labels. Frequent aliens in the trade receivables account were provision for doubtful debts and the cash sales. Double entry recording of transactions is fundamental to understanding how information is recorded within accounting systems. There is a clear need to practice posting from books of prime entry (cash book and sales journal) into the relevant ledger accounts such as irrecoverable debts and the provision for doubtful debts account. Accuracy in terms of the correct names and dates of the transactions should be emphasised. An investment in time in understanding bookkeeping will pay off in all areas off the syllabus.

(b) The first in a series of short questions required an extract of the statement of financial position that included trade receivables and the provision for doubtful debts. Like **part (a)** there were many blank answers and if own figures were presented the heading of current assets was often omitted.

(c) Ways to reduce the possibility of irrecoverable debts is an important strategy that all businesses will keep under constant review. There are many well established methods of credit control and answers were generally of a high level and good candidates could identify at least two of the ten available. Weak answers would be too vague, for example 'increase cash' instead of 'sell more on a cash basis', or 'send statements' instead of 'send statements out promptly'.

(d) Two factors to be considered when setting a provision for doubtful debts was a challenging question. Candidates may well be used to calculating the provision as a percentage from textbook exercises, but they appeared to lack an appreciation of how this level may be arrived at in a commercial environment. Specific techniques commonly employed such as reviewing how long debts have been outstanding and credit references for new customers provide the basis for granting a level of credit. A mark was available for the impact of the condition of the local economy, and this provided a valuable return for the less knowledgeable candidates.

Question 5

Partnership appropriation account, statement of financial position, principle of 'going concern'

(a) Partnership accounts are popular high scoring questions for candidates. There was a requirement to calculate interest on drawings over two time periods during the financial year and was an easy calculation. However, many candidates just multiplied the total drawings by 3 per cent resulting in a costly error. It is also important to emphasise that the appropriation account must start with the profit for the year ($59 190) otherwise the rest of the statement is meaningless and easy marks are lost.

The interest on capital calculations and salary were treated correctly but again a number of candidates would arrive at a figure at this point and then make no attempt to share the profits between the partners at the agreed ratio of 3:2. An error that also crept in was to share the profits on a 50:50 basis indicating a need to refer back to the initial question information on a regular basis.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

(b) The follow up exercise to producing the profit and loss appropriation account for the partnership was to produce an extract of their statement of financial position that included full details of their current accounts. Many candidates seemed unprepared for this activity and demonstrated the need to practice the exercise of putting the partnership statements together and understand how the flow of information results in a completed statement of financial position.

Where candidates included current account details, they were often combined, making it incomprehensible to the partners and unable to determine individual balances on their current accounts. This presentational aspect should be equally as important as when producing sole trader and limited company accounts.

(c) The majority of candidates were aware that a debit balance on a partner's current account indicated that the partner owes the partnership. The second mark was allocated for recognising that the drawings were too high or greater than the total profit share.

(d) The accounting principle of going concern was similarly answered as in **part (c)** with one mark gained for recognising that the principle is that 'the business will continue for the foreseeable future'. The second aspect is that there is no intention to close or reduce the size of the business significantly and again this mark was rarely awarded.

eduresourceza.com

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

ACCOUNTING

Paper 0452/23
Paper 23

Key messages

Before attempting an answer it is important that candidates read through each question very carefully and make sure that they understand exactly what is required.

Candidates are reminded that it is sensible to show calculations where appropriate. By showing calculations it may be possible to earn some of the available marks even if the final answer is incorrect.

It is important that all figures and words are legible. The handwriting of some candidates was very difficult to read so marks which may have possibly been earned were not able to be awarded. Some candidates attempted to change words and figures by writing over them which often resulted in them being unreadable.

Those candidates who required extra space to complete an answer usually indicated where the extra work was to be found e.g. 'continued on page…'. This ensured that the additional work was not overlooked.

General comments

All questions on the paper were compulsory so it is important that candidates are familiar with all the topics on the syllabus.

It is essential that candidates have a good understanding of double entry book-keeping as it forms the basis of the day-to-day records of a business. Candidates must also be familiar with the preparation of financial statements of various organisations. It is important that candidates understand the importance of using the correct terminology and ensuring entries in ledger accounts and books of prime entry are correctly dated. Inappropriate abbreviations such as 'NP' for 'net profit' and 'GR' for 'general reserve' should be avoided.

As usual there were three five-mark questions where candidates were required to provide advice on a particular course of action. A good answer should consider both aspects of the given scenario and provide a clear recommendation. Many answers concentrated on only one aspect and did not provide a balanced discussion. Many candidates would benefit from more guidance on how to answer this type of question.

Comments on specific questions

Question 1

(a) Using a trial balance and additional information, candidates were required to prepare an income statement for a service business. Many candidates seemed unfamiliar with this type of business and did not appreciate that the business would not have any sales. Most candidates correctly adjusted the expenses for accruals and prepayments. Calculating the depreciation seemed challenging for many candidates. Extraneous items such as capital, drawings, cost and accumulated depreciation of non-current assets were often incorrectly included. The weaker responses incorrectly attempted to prepare a trial balance or a statement of financial position.

(b) The capital account of the business owner had to be prepared. Most candidates correctly entered the opening capital and the drawings but omitted the profit for the year. The weaker responses included extraneous items such as non-current assets and expenses

(c) The owner of a business renting out accommodation wanted to expand her business and was undecided whether to use her own savings or obtain the capital required by forming a partnership.

Downloaded from eduresourceza.com

© 2022

Downloaded from eduresourceza.com

Candidates were required to advise the business owner which option she should select. Most candidates were confident in discussing the advantages and disadvantages of a partnership but not so confident in their comments about continuing in business as a sole trader. The comments were often limited to standard textbook statements about advantages and disadvantages of partnerships (which were unrelated to the named individuals) and there was no mention of the advantages and disadvantages of operating the business as a sole trader. Where comments were made on both options they often repeated the same point such as 'she would share profits with her partner' and 'she could keep all the profit if a sole trader'

(d) Candidates were asked to state the difference between capital and revenue expenditure and to explain why the difference between the two is important when preparing financial statements. Some candidates incorrectly referred to capital expenditure as being expenses related to non-current assets. A significant number also incorrectly believed that capital expenditure was money spent using the owner's capital and revenue expenditure was money from revenue. Many did not offer comments on the importance of the distinction between the two types of expenditure. Comments which were provided were limited to 'profits will be incorrect' which was not adequate.

Question 2

(a) Two advantages of maintaining a petty cash book were required. Common acceptable answers related to reducing the number of entries in the main cash book and the ledger, division of labour and training for juniors. The imprest system of petty cash may help to reduce fraud: simply maintaining a petty cash book will not.

(b) Using data provided, a petty cash book had to be prepared. Most candidates were able to score high marks. Common errors included incorrect details, such as 'bus' for 'bus fare' and 'purchase ledger' for 'Crystal'. The totalling of the analysis columns and the balancing caused problems for some candidates, and many omitted to show the restoration of the imprest.

(c) The double entry for the postages and the amount paid to Crystal had to be recorded in the ledger. This should have been straightforward but proved to be rather challenging. The petty cash book records the credit entries for small amounts of cash leaving the business and these are then debited in the appropriate ledger accounts at the end of the month.

(d) At the end of the financial year the closing inventory is transferred from the income statement to the debit of the inventory account, which is then balanced, and the balance is brought down on the debit side to start the next financial year. Many candidates included extraneous items from the petty cash book.

(e) Candidates were required to explain three problems of inter-firm comparison. Many candidates were able to identify three problems but only provided a few words on each, rather than an explanation. This seemed to be an unfamiliar topic for some candidates who limited their answers to emotional issues arising from a comparison.

Question 3

(a) Ledger accounts for insurance and commission receivable had to be prepared from information provided. Many candidates provided satisfactory answers. Marks were forfeited because of incorrect details such as 'insurance paid' and 'refund' for 'bank', and 'owing' or 'accrual' for 'balance'.

(b) An extract from the statement of financial position was required showing insurance and commission receivable. This should have shown an extract from the current assets as both these items would be regarded as other receivables. Many candidates incorrectly believed that the commission receivable was a current liability.

(c) Candidates were required to explain why the matching principle is important in the preparation of an income statement. Many candidates provided definitions of the matching principle, but this was not what the question required. Application of the matching principle ensures that the correct amounts of revenue and income are included in the income statement, so that the profit for the year is correctly calculated, resulting in accurate profitability ratios and reliable decision-making.

Downloaded from eduresourceza.com

Downloaded from eduresourceza.com

(d) Using information provided about an invoice and the date of payment, candidates were required to calculate trade discount, cash discount and the amount paid. The majority correctly calculated trade discount. Many candidates incorrectly calculated the cash discount as a percentage of the list price rather than a percentage of the price after trade discount.

(e) Many candidates correctly completed the tables to indicate the effect of discount allowed and discount received on the profit for the year

Question 4

(a) Candidates were required to complete statement of changes in equity. Common errors included incorrect details such as omission of dates for the opening and closing items, insufficient descriptions of the dividends and transfer to general reserve, and inclusion of extraneous items such as debentures. A number of candidates did not seem to be familiar with this topic.

(b) The return on the closing capital employed had to be calculated. The closing capital employed was the candidate's own figure from the total column of the statement of changes in equity prepared in **Part (a)** plus the debentures of $60 000. The numerator should have been the operating profit of $23 000 (the profit before debenture interest). Many candidates overlooked the debentures and used the profit for the year after interest.

(c) A calculation of the profit margin was required. The numerator was the profit for the year of $20 000 and the denominator was the revenue of $310 000. Candidates were then asked to suggest two ways in which the profit margin could be improved. Reducing expenses and increasing other income were popular correct responses.

(d) A limited company wanted to raise extra finance from either an issue of debentures or an issue of ordinary shares. Candidates were required to advise the company which option should be selected. Once again, some answers concentrated on only one of the options and attempted to make a recommendation based solely on those comments. Many recognised that debentures are paid interest and shareholders expect a dividend. Some tried to describe how issuing additional ordinary shares would dilute the control of the current shareholders but incorrectly referred to the company itself losing control.

Question 5

(a) A journal entry to write off an irrecoverable debt was required. Many candidates showed the correct entries. There were some reversed entries and some entries to trade receivables account rather than a named business. A narrative should indicate why the journal entry was made not simply state which account was debited and which was credited.

(b) An extract from an income statement was required to show the irrecoverable debts and the creation of a provision for doubtful debts. The total of the debts written off during the year was $4700 (the debt written off in **Part (a)** and the other irrecoverable debts of $4100). This would have appeared in the statement as one item not two separate entries. The provision for doubtful debts was $4575. Many candidates incorrectly deducted the debts written off during the year from the closing trade receivables before calculating the 5 per cent required for the provision.

(c) An extract from a statement of financial position was required to show the trade receivables and the provision for doubtful debts. Many candidates again incorrectly adjusted the closing trade receivables for the debts written off during the year before deducting the provision for doubtful debts calculated in **Part (b)**.

(d) Candidates were required to prepare ledger accounts for a trade receivable, irrecoverable debts and provision for doubtful debts. Many candidates did not seem to be familiar with this topic and consequently the question proved to be rather challenging. In addition to have a thorough understanding of the double entry system candidates should also be aware of the importance of correct details and dates.

(e) A trader wanted to try to reduce the irrecoverable debts either by charging interest on overdue accounts or by refusing supplies to customers who did not pay within the period of credit allowed. Candidates were required to advise the trader which option should be selected. Again, some answers concentrated on only one of the options and attempted to make a recommendation based

Downloaded from eduresourceza.com

Downloaded from eduresourceza.com

solely on those comments. Where comments were made on both options they were often duplicated such as ‘customers will go to other suppliers’ which could earn only one mark not two.

Downloaded from eduresourceza.com

© 2022