

ACCOUNTING

Paper 9706/11
Multiple Choice (Core)

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

General comments

This paper was taken by 101 candidates. The mean score was 16.3 with a standard deviation of 4.7.

The intended facility of the items was 0.25 to 0.80. One item proved to be too easy. This was item 4. However three items proved to be too difficult. These were items 21, 23 and 24.

There were eight items where discrimination was below the design limit of 0.25. These were items 4, 5, 9, 17, 21, 23, 26 and 29.

Specific areas of weakness in candidates' understanding were shown in the costing questions where a failure to grasp basic principles was highlighted.

Comments on specific questions

Item 7 More candidates chose C than the key as they believed one overstatement and one understatement must work in opposite directions irrespective of the nature of the items being adjusted.

In **Item 17** almost twice as many candidates chose D as selected the key, as they did not realise that working capital management involved inventory rather than profit.

Item 18 showed that many candidates did not know to include non-current liabilities in ROCE.

In **Item 21** the majority of candidates selected A as they thought past performance would be an indicator of future profitability.

Items 23, 24, 26 and 28 showed a failure to understand the nature of fixed and stepped costs and the purpose of absorption costing.

In **Item 23** nearly four times as many candidates dealt with stepped costs by using an average per unit as those who dealt with them correctly.



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Paper 9706/12
Multiple Choice (Core)

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

General comments

This paper was taken by 6513 candidates. The mean score was 17.1 with a standard deviation of 5.8.

The intended facility of the items was 0.25 to 0.80. One item proved to be too easy. This was item 2. However one item proved to be too difficult. This was item 24.

There was one item where discrimination was below the design limit of 0.25. This was item 23.

Specific areas of weakness in candidates' understanding appeared in the costing questions.

Comments on specific questions

Item 2 was done very well, with most candidates understanding how to treat prepayments and accruals.

In **Item 8** as many candidates chose C as selected the key, as they believed one overstatement and one understatement must work in opposite directions irrespective of the nature of the items being adjusted.

In **Item 19** B was nearly as popular as the key. Candidates could understand the gross profit margin changes but struggled to calculate the capital employed for the ROCE calculation.

In **Item 24** twice as many candidates chose B as selected the key because they did not understand the nature of stepped costs and worked out an answer using an average cost.

In **Item 25** the majority of candidates chose B as they did not understand the significance of a range in fixed costs.



ACCOUNTING

Paper 9706/13
Multiple Choice (Core)

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

General comments

This paper was taken by 1195 candidates. The mean score was 16.75 with a standard deviation of 5.5.

The intended facility of the items was 0.25 to 0.80. Two items proved to be too easy. These were items 21 and 28. However items 17 and 22 proved to be too difficult.

There was one item, 22, where discrimination was below the design limit of 0.25.

There were no specific areas of weakness in candidates' understanding.

Comments on specific questions

Item 17 had roughly similar numbers of candidates selecting each option as candidates might have been guessing. Slightly more chose B than any other option including the key. Candidates did not appear to be linking the information about trade receivables, given in the first line, with their choice of option.

Item 18 had many more candidates who chose D than candidates who selected the key, as they did not understand that working capital management had more to do with inventory than with profit.

Item 22 was done very badly as candidates did not realise that past performance is not an indicator of future profit. Many more candidates chose A rather than the key.

ACCOUNTING

Paper 9706/21
Structured Questions (Core)

Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions.

The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Comments on Specific Questions:

Question 1

- (a) Candidates were required to prepare a departmental income statement for the year from a list of data. The majority of candidates responded well to this task and scored full marks but a lot of candidates were careless when dealing with the apportionment of the costs with some indication of a lack of understanding of the terminology and simply split the expenses equally across the three departments.
- (b) Candidates were asked to explain how the preparation of a departmental income statement might assist the owner in managing the business. This was poorly done even by candidates who scored well in part (a). The most common responses were to aid management decision-making and to compare profitability of one department with another which were suitably rewarded.
- (c) Candidates were asked to explain two terms related to the valuation of inventory. Again, this was poorly answered with almost all candidates stating that the cost of purchase was the amount paid for the goods and the net realisable value was the selling price. The correct definitions for these terms are covered in the majority of accounting textbooks and candidates are advised to spend some time considering these.

Question 2

- (a) Candidates were required to prepare an estimated profit and loss appropriation account for a partnership. This was generally well answered by the majority of candidates. The main problems were in the calculation of interest on drawings, where the figures shown were double the correct amount, and the calculation of the partner's share of profit: Maura's share was usually correct at 10% of the share of residual profit, but candidates found it difficult to calculate the others' share where the remainder was to be divided between them in the ratio to their capital. Several candidates erroneously included drawings in the statement.

- (b) Candidates were required to prepare one partner's current account. Generally this was done by most candidates but a minority showed the \$50 000 investment as opening capital.
- (c) Candidates were required to use figures to advise a potential new partner whether or not to join a partnership. While candidates were able to provide some excellent advice there was a noticeable lack of calculations to support this as was requested in the question.
- (d) Candidates were required to suggest two reasons for a change in the percentage of gross profit to sales. This was not answered well with many candidates stating that selling more goods would increase the gross profit to sales ratio. The correct response, that a higher sales price with unit cost of sales remaining static or rising more slowly, was not given.
- (e) Candidates were required to suggest two reasons for a change in the percentage of net profit to sales. This was not answered well although many candidates were aware that lower overheads might be a contributing factor. T

Question 3

- (a) Candidates were required to calculate the unit contribution for three products. This was well answered by most candidates with the main area of difficulty being with those candidates who did not understand the term 'contribution'. Having worked out the unit contribution it was relatively easy to calculate the total contribution and hence the total profit, especially as fixed costs were given.
- (b) Candidates were required to calculate the contribution per square metre of raw material used. Candidates who had correctly calculated unit contribution in (a) should have then divided the unit cost of raw materials by the cost per square metre to work out the number of square metres needed per tent, eg for Beach this would be \$30 divided by 6 = 5, then divide unit contribution by that figure, that is $\$26/5 = \5.20 per square metre. The majority of candidates found this difficult to do and provided poor responses.
- (c) Candidates were required to calculate the production schedule which would result in profit being maximised. There were several alternative strategies adopted by candidates which all resulted in good marks being awarded.
- (d) Candidates were required to prepare a marginal cost statement. The standard of response was variable with many candidates not understanding the requirements of the task. The correct approach was to take the units produced and multiply this by the unit contribution which would give the total contribution per tent. The summation of all three contributions minus the fixed costs would result in the correct figure.
- (e) Candidates were required to prepare a revised version of the marginal cost statement produced in (d). Similarly to (d) this was not well answered by the majority of candidates who failed to understand the requirements of the task.

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Paper 9706/22

Structured Questions (Core)

Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions.

The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Comments on Specific Questions:

Question 1

- (a) Candidates were required to prepare a manufacturing account from given data. This was generally well done by the majority of candidates with weaker candidates placing items in the wrong section of the statement, e.g. the inclusion of indirect wages in the prime cost section.
- (b) Candidates were required to prepare an income statement from given data. Candidates who presented a correct manufacturing account in (a) almost inevitably completed a correct income statement. The most common errors were in the calculation of the decrease in the provision for doubtful debts, and the occasional inclusion of that figure as an expense rather than as income, but these were not common.
- (c) Candidates were required to state three examples of how the prudence concept had been applied in (a) and (b). The majority of candidates were able to state two examples but were unable to state a third. The weaker candidates did not relate their answer to the statements produced as required by the question but gave generic responses.

Question 2

- (a) Candidates were required to calculate the value of goodwill on the creation of a partnership. This was generally well answered by only half the candidates with many not clearly reading the information in point 4 which provided a clear indication of the method to be used.
- (b) Candidates were required to prepare the partner's capital accounts. Overall this was well answered by the majority of candidates although weaker candidates found this difficult particularly with the inclusion of goodwill.



- (c) Candidates were required to prepare a statement of financial position for the new partnership. This question was well received by the majority of candidates who were clearly well prepared for the question.
- (d) Candidates were required to outline four advantages of the formation of a partnership which over time was well answered by the majority of candidates. Common responses which all gained full marks included: the introduction of additional capital; availability of different skills; able to share to losses and shared responsibility.

Question 3

- (a) Candidates were required to complete an overhead schedule in order to calculate the total overheads for two production departments. This type of question has not been asked for some time and candidates appeared poorly prepared for it. Consequently it was badly answered by the weaker candidates who were unable to comprehend the nature of the task.
- (b) Candidates were required to calculate overhead absorption rates for the two production departments using their answers to (a). Marks were awarded for correctly using the denominators of 202 500 (machining) and 314 500 (assembly) which the majority of candidates were able to do.
- (c) Candidates were required to use the figures for factory indirect costs given in part (c) and to use the appropriate direct machine or direct labour hours to calculate the absorbed overheads. This was poorly answered with candidates confused over the terms over- and under-absorption.
- (d) Candidates were required to explain how the results in (c) could have occurred. Few answers related to part (c) and much was written about what happened rather than how or why it happened. There were many general answers, not related to the question.
- (e) Candidates were required to explain the problems associated with using predetermined overhead absorption rates. The most frequent responses related to "inaccuracy" which was awarded marks with better candidates also identifying correctly the effect on price, demand, and/or profit.

ACCOUNTING

Paper 9706/23
Structured Questions (Core)

Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

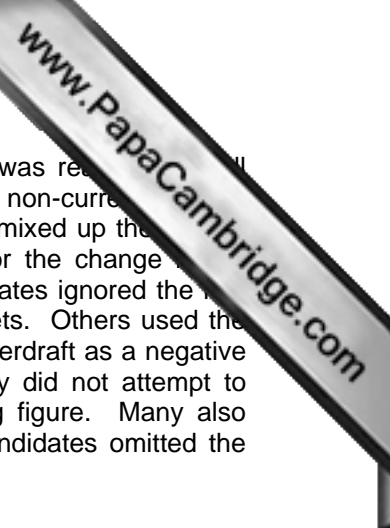
Comments on specific questions

Question 1

Candidates were required to produce a set of final account for a sole trader for incomplete data.

- (a) Candidates had to extract the relevant data to calculate the value of Shaun's sales and ordinary goods purchased. Many successfully used control accounts here though some forgot to add the cash sales in part (i) and adjust for drawings in part (ii). Weaker candidates included the purchase of new fixed assets in their calculation of purchases of ordinary goods and mixed up discount allowed and discount received.
- (b) Many candidates scored full marks for their income statement. The correct layout was used by most and the adjustments for expenses were handled well though general expenses caused problems for some. The main errors found included: depreciation of equipment and depreciation of vehicles being mistakenly entered as \$800 and \$3200 respectively rather than \$18 200 and \$16 000 with candidates ignoring the new assets purchased during the year; surprisingly, discounts allowed and the provision for doubtful debts were often omitted.

Rent received and discounts received caused few problems but some elected to add these in a separate section at the foot of the Income statement. Usually, we expect to find these added items immediately after the gross profit, but if candidates showed them in a separate section after the overhead section, full credit was allowed this time.



- (c) Candidates were asked to prepare a statement of financial position. This was reasonably well done though a surprising number omitted to include premises in their non-current assets. Candidates understood the layout of the statement but too often candidates mixed up the closing and opening inventory figures and failed to adjust the trade receivables for the change in provision for doubtful debts. Many got the bank figure wrong. Some candidates ignored the fact that the bank account was an overdraft, and put the \$8290 into current assets. Others used the January figure of \$5620. Candidates from one or two centres showed the overdraft as a negative figure in the current assets and were not rewarded for their efforts. Many did not attempt to calculate the revised capital figure but assumed it would be the balancing figure. Many also omitted 'goods for own use' from their calculation of drawings. Several candidates omitted the equity section of the statement altogether.

Question 2

Candidates were required to use given data to calculate the depreciation charge and total depreciation for two years for two separate categories of assets. They were also required to prepare three ledger accounts for expenses which included aspects of monies accrued and prepaid.

- (a) (i) Candidates were asked to calculate the total depreciation for both 2010 and 2011 using the straight line method. Most candidates correctly calculated the depreciation, but some clearly had difficulty in adjusting for parts of a year and ignored the fact that MV2 was acquired on 1 July 2010.
- (ii) This proved easier as both items of equipment were purchased at the start of the year.
- (b) (i) This was often done well. Although 2011's figures posed problems for some.
- (ii) This too was generally correct.
- (c) Candidates from some centres were unable to attempt this question, and submitted blank sheets. Of those who did attempt the question, the vast majority correctly deducted the new depreciation figure but omitted to add back the old one. Own figure marks from answers (a) and (b) applied here.

Where candidates had correctly netted out the 2010 figure from the 2011, full marks were given. One or two added 2010 and 2011's depreciation together and received nothing. Yet others incorrectly used the net book values.

Some did not show their workings here and it was difficult to see how their answer had been derived. It should be emphasised to candidates that not showing your working and poor presentation will cost marks.

- (d) This was poorly done, with few candidates scoring as many as two marks, and very few getting all three marks. Generally answers here extolled the virtues of depreciation with prudence and matching concepts appearing regularly. The heavy fall in value during the asset's early years made few appearances. Likewise absent were comments regarding repair and maintenance costs being higher in the later years of the vehicles lifespan.
- (e) The three ledger accounts were often well done. There were the requisite number of reversed entries, which scored nothing, but there were some good answers with full marks being gained.

The insurance account was the one most often reversed, as were a couple of entries in the rent received account.

Candidates from some centres offered a calculation by way of their answer, but since the question specifically asked for an account, calculations scored zero.

Question 3

This question was concerned with the calculation of overhead absorption rates. There were some good answers here with some candidates managing to gain full marks but it was obvious that many candidates were not too familiar with this part of the syllabus particularly those sections of the question relating to the application of the overhead recovery rate. Centres should not neglect this topic and it is obvious that many candidates require more input into absorption costing in general and more practice in determining and applying relevant overhead recovery rates.

- (a) Candidates were required to calculate the current overhead recovery rate for the business. Quite a number of candidates calculated individual overhead recovery rates for production, assembly and packing instead and some mixed up the numerator and the denominator in the formula.
- (b) Some candidates scored well here, but a common omission, even amongst those who offered good answers, was the figure for profit: candidates went straight from total cost to sales, and missed the mark for profit. Many had not taken on board the fact that the sales were based on a margin, so they incorrectly used 25 per cent in their profit calculation. Where a candidate did use margins, the own figure rule applied. Very few used their answer in part (a) to calculate the overheads in part (b). Often ignored was a calculation for the administration expenses.
- (c) Required the calculation of the overhead rate for each department
 - (i) This section asked for the calculation of the overhead rate for each department as a percentage of direct labour cost. This was well answered though too many candidates gave their answer in dollars rather than as a percentage.
 - (ii) This section asked for the calculation for each department of the direct labour hour rate.

Again there were some all correct answers though many incorrectly gave their answer as the number of times rather than the amount in dollars. Another popular incorrect answer here was \$4.17; \$4.44 and \$4.50.

- (d) There were some good efforts here. However, a common mistake was to ignore the direct labour hour rate just calculated in (c) (ii). Many candidates did not appreciate how the recovery rate was to be applied and often labelled overhead incorrectly as the direct labour cost.

Own figure marks for the factory overheads were given if candidates had used their answers to (c) (ii) using the correct multipliers – 400, 700, and 650.
- (e) (i) Some good answers here scoring the full two marks.
 - (ii) There were some good attempts at explanation, distinguishing between the effects of variable costs, which would probably decline, with those of fixed costs which would not. However, many candidates merely stated that the profit would decrease without stating why.

ACCOUNTING

Paper 9706/31
Multiple Choice (Supplement)

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

General comments

A total of 68 candidates sat this paper. The results were disappointing with 62% of candidates achieving a score of less than 15 out of 30. The median score was 13, with the mean slightly higher. This is similar to the outcome in June 2011.

Some questions proved easy to candidates, with **Questions 9, 10, 11, 14** and **17** being answered correctly by 65% or more of candidates. These types of questions, mainly focusing on capital structure and the issue of shares on takeover by a limited company are, though quite common on the paper and it would have been surprising if candidates failed to attempt them well. There was evidence that in some questions candidates lacked the basic knowledge of certain topics. Two examples here would be **Question 2**. In this case apart from the vehicle taken over by Z at an agreed valuation, the capital account also had to be debited with loss on the vehicle. This meant that the key was **B**, but most candidates opted, wrongly for C. Similarly, with **Question 26**, most candidates failed to treat the fixed and variable elements of the production overheads correctly by adding them on to the existing fixed and variable overheads. This led to most candidates answering **A** rather than the correct key of **C**.

Specific questions

Question 7

This question was not well answered. The issue of bonus shares will increase the total number of shares in issue. It will **not** change the total of the shareholder's funds. Thus the impact of the action will be to reduce the value of an ordinary share (Key **D**) and not Key **B** which most candidates answered.

Question 15

This considered impairment of assets. The answer here was **A**, goodwill. This is an intangible asset which should be considered for impairment each year. Whilst it is true that all assets can be subject to an annual impairment review the intangible nature even of purchased goodwill means it must be reviewed every year.

Question 18

This question was not very well done. It was a straightforward ratio to calculate the dividend yield as profit attributable to equity holders divided by the dividends paid and proposed. The correct answer was **B** ($\$32\,000 / \$20\,000$).

Question 22

Here most candidates chose **B** as the correct response. The correct answer was **A**. The difference in inventory was \$22 000. This should have been multiplied by $10 / 110$ to give the correct answer of \$2000. Most candidates multiplied the \$22 000 by 10% to wrongly arrive at \$2200.

Question 24

This question was not very well done. The loss in process was 10% of the input of 6000 kilos = 600 kilos. This was sold for \$6 per kilo, a total of \$3600 which should have been deducted from the cost of the material (\$118 200). The answer was then a division of $\$114\,600 / 5400$ (the actual output) = \$21 22.

Question 28

The correct response to this question was **D**. This was achieved at by taking the sales for the period minus the opening inventory plus the closing inventory to give 120 000 kilos. This was then divided by 80% to take account of the loss. The most common error was the wrong treatment of the opening and closing inventory.

Areas for improvement

Costing still seems to be a problem. This is something which is said in each report and is evident from the responses to the questions. With the change in the syllabus by moving some items in costing to AS, the number of specific topics is quite small; specifically, some areas of marginal costing, standard costing, budgeting and investment appraisal.

ACCOUNTING

Paper 9706/32
Multiple Choice (Supplement)

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

General comments

A total of 4287 candidates sat this paper, with 60% of candidates achieving a score of 15 or more. The median and mean scores were 17.

Questions 8, 9, 11, 12, 16 and 28 earned very high scores with candidates. There were four questions which appeared to prove difficult and they are discussed below.

Specific questions

Question 1

In this case apart from the vehicle taken over by Z at an agreed valuation, the capital account also had to be debited with loss on the vehicle. This meant that the key was **B**, but most candidates opted, wrongly for **C**.

Question 6

This question was not well answered. The issue of bonus shares will increase the total number of shares in issue. It will **not** change the total of the shareholder's funds. Thus the impact of the action will be to reduce the value of an ordinary share (Key **D**) and not Key **B** which most candidates answered.

Question 13

This question tested an area of IAS 36, impairment of assets.

This IAS states that the carrying amount of an asset (its net book value) is compared with the higher of an asset's fair value less costs to sell and the asset's value in use. If either of the last two are greater than the net book value then the asset is not impaired. If, however both are lower than the net book value then the asset has to be written down (impaired).

For example, the net book value of an asset is \$20 000. The fair value is \$18 000 and its value in use is \$25 000. As the value in use is greater than the net book value the asset is not impaired.

Suppose though that the value in use is \$19 000. Both its fair value and value in use are lower than the net book value, so the asset is impaired. It must be written down by \$1000 (\$20 000 – the higher of the other two values, \$19 000).

This meant that considering all the values given the key was **C** and not **D**, which was simply the sum of all the net book values.

Question 20

Here most respondents went for **B** as the correct response. The correct response was **A**. The difference in inventory was \$22 000. This should have been multiplied by 10 / 110 to give the correct answer of \$2000.

Areas for improvement

Costing still seems to be a problem. This is something which is said in each report and is evident from the responses to the questions. With the change in the syllabus by moving some items in costing to AS, the number of specific topics are quite small; specifically, some areas of marginal costing, standard costing, budgeting and investment appraisal.

ACCOUNTING

Paper 9706/33
Multiple Choice (Supplement)

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

General comments

A total of 702 candidates sat this paper, with 63% of candidates scoring 15 or more. Both the median and mean scores were 17.

Candidates for the paper seemed well prepared which was reflected in the fact that **Questions 4, 9, 10, 11, 12, 15, 19, 20, 23, 25, 28, 29, and 30** gained very high scores with candidates.

Specific questions

Question 1

Candidates found this question difficult. In general questions are set with ideally no more than four steps for candidates to calculate. Candidates should have realised that the two capital balances at the start of the period also represented the net assets at that point. The profit for the month of October (\$19 500) was split between the two partners increasing their total capitals and thus the net assets to a total of \$291 000. This resulted in a net loss on disposal of \$9000, split between the partners. The net effect of all this left the correct key as **B**. Had candidates just concentrated on the balance of either X or Y then only one answer was possible.

Question 7

This was quite straightforward but several candidates found it difficult. The term 'keeping reserves in the most flexible form' means that the reserves can either be used for capital purposes (issue of bonus shares etc.) or payment of dividends. The total shares to be issued were \$250 000 and this was more than covered by the capital reserves. Thus the general reserve and retained earnings total of \$360 000 (Key C) was the answer.

Question 14

This considered impairment of assets. The answer here was **A**, goodwill. This is an intangible asset and one which should be considered for impairment each year. Whilst it is true that all assets can be subject to an annual impairment review the intangible nature even of purchased goodwill means it must be reviewed every year.

Question 16

This question tested IAS 36.

This IAS states that the carrying amount of an asset (its net book value) is compared with the higher of the asset's fair value less costs to sell and the asset's value in use. If either of the last two are greater than the net book value then the asset is not impaired. If, however both are lower than the net book value then the asset has to be written down (impaired).

For example, the net book value of an asset is \$20 000. The fair value is \$18 000 and its value in use is \$25 000. As the value in use is greater than the net book value the asset is not impaired.

Suppose though that the value in use is \$19 000. Both its fair value and value in use are lower than the net book value, so the asset is impaired. It must be written down by \$1000 (\$20 000 – the higher of the other two values, \$19 000).

This meant that considering all the values given the total value of assets was \$87 000 (\$40 000 + \$27 000 + \$20 000), being the key **C**.

Question 17

This question was poorly answered. It was a straightforward ratio to calculate the dividend yield as profit attributable to equity holders divided by the dividends paid and proposed. The correct response was **B** (\$32 000 / \$20 000).

Question 21

Here candidates had to consider the provision for unrealised profit in two ways. Firstly what was the opening provision which was \$2000 (\$10 000 x 20%). Secondly how much profit was in the closing inventory: (\$9000 x 20/120) = \$1500. This then led to a required reduction in the provision of \$500 and the key of **A**.

Areas for improvement

As indicated earlier, the good response to this paper shows that teachers are giving good coverage to the syllabus, which is reflected in the high marks. This can only be of value to future candidates.

ACCOUNTING

Paper 9706/41
Problem Solving (Supplement)

Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Comments on Specific Questions

Question 1

This question required very definite knowledge of the international standards. Those candidates who knew the correct layouts were able to produce good answers. Those candidates who did not know the correct layouts produced very confused answers.

Part (a) required the preparation of a statement of changes in equity. Unfortunately very few candidates knew the correct layout and many just repeated the equity section of the statement of financial position from the question.

Part (b) was satisfactorily answered, although a significant number of candidates still used the old layout for a cash flow statement from FRS1. The question asked for IAS7 to be applied.

Part (c) was not well answered with the majority of candidates did not know the correct treatment of a proposed dividend under the international standards and treated it as a current liability in the statement of financial position rather than as a note in the accounts.

Part (d) was satisfactorily answered with many candidates stating that dividends and a share issue would not appear.

Question 2

It was very important that candidates had a neat presentation of the capital accounts and showed their workings clearly.

Part (a) was satisfactorily answered with the majority of candidates stating how a debit balance on a partner's current account would appear.

Part **(b)** was answered well with candidates focusing on disagreements, possible retirement of a partner and lack of profits. Candidates are reminded that where the question relates to the scenario given, answers should not be given in generic terms.

Part **(c)** was generally well answered. Not all candidates produced a realisation account to calculate the profit or loss on dissolution and, in this instance, workings needed to be detailed and clearly presented. A common error was to omit the inventories and motor vehicle taken over by Avtandil. The bank account was often well prepared except that the overdraft was recorded on the debit side. A common error in the capital account was to record the bank account entries as balances c/d.

Part **(d)** was well answered although several different methods were used by candidates to calculate the amount of shares. The most common error was to not consider that the ordinary shares had a nominal value of \$0.50 each and therefore the capital had to be multiplied by two for the total number of shares.

Question 3

This question was quite well answered.

Part **(a)** was satisfactorily answered with most candidates referring to control and planning as the purpose of standard costing, with few candidates extending their answer to cover setting targets to measure performance and make savings.

Part **(b)** was well answered by the majority of candidates and clearly laid out, however the main errors were to omit the overheads or the incorrect application of the profit margin of 19%.

Part **(c)** was either well answered or very poor. Candidates either knew how to calculate the variances or did not. The common errors included errors in the flexed budgets and the direction of the sales income variances.

Part **(d)** was often answered in a generic way with the candidates not referring to the scenario or the actual variances calculated in part **(c)**. Comments which explained the adverse variances as arising due to an increase in the production units were not rewarded. It should be remembered that if a candidate miscalculated the variances in part **(c)**, then the own figure rule would apply in part **(d)**, as long as the comments were relevant to the variances actually calculated. Candidates are also recommended to avoid sitting on the fence by making general comments such as “the material price variance could have arisen due to an increase or a decrease in the price.”

Part **(e)** was well answered with the majority of candidates correctly calculating the net profit. A common error was to omit the calculation of the contribution per labour hour and so the ranking was incorrect.

ACCOUNTING

Paper 9706/42
Problem Solving (Supplement)

Key messages:

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level. This was particularly important in **Question 1** with reference to IAS 23 and IAS 36.

General comments:

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Comments on Specific Questions

Question 1

This question was well answered on the AS manufacturing accounts, although it was surprising how many candidates did not know the content of IAS 23 and IAS 36 in detail.

Part **(a)** was well answered with many candidates producing well laid out answers. Others combined the manufacturing account with an income statement and mistakenly subtracted the prime cost from revenue and then added factory costs. Common errors included omitting the factory profit or the work in progress from the manufacturing account. Very few candidates treated the provision for unrealised profit. Some candidates adjusted for the provision twice by amending the inventory figures for the unrealised profit but then also subtracting the increase in the provision from the factory profit.

Part **(b)** was well answered. The main error was to omit the 73 for the provision for unrealised profit.

Part **(c)** was not well answered with the majority of candidates not being able to clearly explain the treatment of the interest on a loan used to acquire a qualifying asset. Many candidates ignored capitalisation and instead stated that the interest should be treated as an expense in the income statement.

Part **(d)** was also not answered with most candidates not knowing that the correct accounting treatment so that assets are recorded in the statement of financial position at no more than their recoverable amount. Very few candidates commented on impairment.

Question 2

This question was on partnerships, being a topic regularly covered at A Level. The own figure rule was applied throughout, so that if a candidate made an error they were not penalised throughout but instead at the first place of error, for example if a candidate incorrectly calculated the amount of drawings for Creakle in part (b) but used their own figure in part (c) they did not lose marks twice.

Part (a) was satisfactorily answered as most candidates knew the provisions of the 1890 Partnership Act, for example that profits are shared equally. However few candidates correctly adjusted for the bank interest or the interest on the loan from Creakle.

Part (b) was well answered with the majority of candidates correctly calculating the amount of drawings made by each partner. The most common error was to omit the original interest of \$500.

Part (c) was well answered, although a variety of layouts was used. Some candidates produced a current account for each partner; others did a pure calculation of the revised profit adjusted for the interest and the drawings.

Part (d) was answered satisfactorily with many candidates making valid comments on the performance of the partnership.

Part (e) was completed well by the majority of candidates although a common error was to not identify the amount of loan due to Quilp. Candidates could record a net figure for goodwill within the capital accounts.

Part (f) was again well answered. The most common error was to include goodwill within the non-current assets.

Part (g) was well answered with candidates comparing the amount he received when in the partnership to the amount he earns as an employee. Good candidates commented on employment offering better security although he had no say in or control over the running of the business.

Question 3

The most important consideration with a costing question is that a logical approach is used so that workings can be followed.

Part (a) was well answered with most candidates being able to explain flexible budgeting.

Part (b) was satisfactorily answered although some candidates just defined the terms flexible budget and fixed budget without comparing them and giving reasons why flexible budgeting was better at monitoring costs.

Part (c) had mixed responses. Many candidates produced perfect production budgets whereas other candidates had no idea how to present a budget. Some candidates included opening inventory as well as a reduction in closing inventory of 20 units.

Part (d) was well answered although a few candidates omitted the "other variable overheads" and so stated contribution per unit as \$18, thereby miscalculating the break even.

Part (e) was the least well answered part on this question. Many candidates did not know how to lay out their answer and instead made separate calculations for each variance by using the formulae. Some candidates stated the actual budget only and ignored the requirements of the question to show both the actual and flexed budgeted data.

Part (f) was well answered although a few candidates gave only generic reasons for the reduction in profit and did not apply their comments to the scenario or figures actually calculated. The better candidate stated that although there had been an increase in the amount of units sold, this increase was not enough to offset the loss in revenue due to a reduction in sales price, which was one of the reasons for a reduction in overall profit.

ACCOUNTING

Paper 9706/43
Problem Solving (Supplement)

Key messages

Candidates should be encouraged to pay more attention to detail when reading and answering the computational questions. In addition, candidates would gain higher marks if they spent more time developing their explanations and discussions in the discursive questions. The application of the International Accounting Standards (terminology and layouts) is now expected at this level.

General comments

The performance of candidates was varied and reflected the approach centres had adopted to the coverage of the syllabus. All the questions were compulsory and covered various topics on the syllabus. It was expected that all candidates should be able to attempt the structured questions on this examination paper.

Candidates are reminded that questions can be asked on any aspect of the syllabus and that a thorough knowledge of the subject is necessary in order to achieve a good grade.

When preparing for the examination candidates are advised to work through relevant questions on previous examination papers and appropriate exercises in textbooks.

Candidates are reminded that an incorrect figure without supporting calculations will lose marks, but if calculations are provided some of the available marks may be awarded even if the final figure is incorrect.

Candidates were able to complete the paper within the time allowed and the vast majority of candidates answered each question well. There were very few candidates with gaps in their knowledge and most produced reasonable answers to each question with some excellent scripts.

Comments on Specific Questions

Section A

Question 1

Candidates were required to produce a statement of cash flows in accordance with IAS 7 and calculate and comment on two performance indicators.

- (a) The majority of candidates were able to produce an accurate statement in the correct format. Some candidates had difficulty with the depreciation and tax paid figures and those who used ledger accounts appeared to fare better rather than adding and subtracting from the given data.
- (b) The majority of candidates were able to produce an accurate statement in the correct format but weaker candidates lost valuable marks by failing to enter the opening and closing balances of cash and cash equivalents. There was evidence that some candidates were not prepared fully to produce the statement in accordance with IAS7.
- (c) The majority of candidates were able to calculate the ratios correctly and produce some valid comments on the changes.

Question 2

Candidates were required to produce a statement of financial position for a limited liability company that they had purchased a former partnership. They were also required to calculate the return on capital employed over a two year period and explain the advantages and disadvantages of alternative sources of additional capital.

- (a) The majority of candidates were able to produce an accurate statement in the correct format. Candidates must remember to show full workings in order to ensure that they can be awarded all available marks. Weaker candidates, who were able to calculate goodwill failed to enter it in the statement and were penalised accordingly.
- (b) The requirement to calculate the return on capital employed was generally well answered but several candidates used equity or net assets in their calculation, which was incorrect, rather than equity plus debentures.
- (c) Well prepared candidates were able to explain the pros and cons of the other options but the recommendation was often omitted. Few candidates stated that the bonus issue would not provide the required funds.

Question 3

Candidates were required to use the given data to calculate the net cash flows and net present value of a proposed expansion in a business operation.

- (a) Many candidates confused net cash flow with profit and a similar number omitted the cash outflow at the beginning of the proposal.
- (b) Overall this was well answered by the majority of candidates but some experienced difficulties in calculating the average profit.
- (c) Overall this was well answered by the majority of candidates but some not clarify whether their answer was positive or negative.
- (d) Most candidates gave reasonable and relevant advice based on their ARR and NPV calculations.
- (e) This part was answered disappointingly with many candidates clearly uncertain of the relevance of the IRR.