ACCOUNTING

Paper 0452/11
Paper 11

Question Number	Key
1	D
2	C
3	A
4	C
5	B
6	D
7	D
8	A
9	D
10	C
11	D
12	A

Question Number	Key
13	D
14	C
15	B
16	A
17	B
18	A
19	A
20	B
21	B
22	C
23	D
24	D

Question Number	Key
25	B
26	C
27	D
28	C
29	A
30	B
31	B
32	B
33	C
34	C
35	C

Key messages

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

Before selecting an option on the answer sheet candidates are advised to read through each item very carefully to ensure that they have a clear understanding of exactly what is required.

General comments

Those candidates who possessed 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.

Comments on specific questions

Question 5

When money is received the discount column on the debit side of a cash book is used to record any discount allowed: when money is paid the discount column on the credit side of a cash book is used to record any discount received. In this scenario the trader received cash discount of $700 (Option **B**).

Question 7

The amount required for the restoration of the imprest of a petty cash book will be equal to the net amount spent during the month (the total payments less receipts during the month, if any). This will then restore the balance to the imprest amount. The petty cashier retains a voucher every time cash is paid out showing the name of the person, the amount and the reason for the payment. The total of the vouchers, therefore, represents the total spent. The key was **D**.

Question 10

Omitting to record the purchase of a machine and recording a vehicle in the repairs account resulted in the non-current assets being understated by $20 000. The omission of the purchase of the machine also meant that the bank account was overstated by $5 000, so the working capital was also overstated. The key was **C**.

Question 11

The debit balance in the bank column in the cash book would increase by $90 when the purchases error was corrected and would increase by $120 when the interest received was recorded. However, the balance would decrease by $76 when the bank charges were recorded. The correct bank balance would be $10 934 (Option **D**).

Question 13

The purchases ledger control account would have debit entries for the returns and the total paid and a credit entry for the purchases. An amount of $94 had been overpaid so this would be entered on the credit side and carried down as a debit balance. The usual balance would then be entered on the debit side and carried down as a credit balance. The account would, therefore, have a debit balance of $94 and a credit balance of $3 514.

Question 14

The insurance and maintenance charges are revenue expenditure. The cost of the machine, the delivery and the installation charges are capital expenditure so the asset account would be debited with $12 100.

Question 16

The depreciation for motor vehicles for the year ended 30 April 2022, using the reducing balance method, would be $4 480 (20% × ($35 000 – $12 600)). The total depreciation on 1 May 2022 would be $17 080 ($12 600 + $4 480)

Question 18

The amount of commission received during the current financial year included $210 relating to the previous financial year. The amount relating to the current year of $4640 would be transferred to the income statement by debiting the commission receivable account and crediting the income statement (Option **A**).

Question 21

The cost price of the damaged goods was $12 per unit. The net realisable value per unit was $7 (the estimated selling price less the cost of repairs). The inventory was, therefore, overstated by $50 ($5 per unit × 10 units). If the closing inventory is overstated both the gross profit and the profit for the year will be overstated by the same amount. The key was **B**.

Question 22

Loan interest was owed to Marek so this is accrued income which would be added to the gross profit in the income statement. This would increase the profit for the year. Any amounts owing to a trader are assets, so Marek's current assets would increase. The key was **C**.

Question 24

Interest on drawings of $150 would be added to the profit for the year. As there were no other appropriations the amount of $30 150 would then be divided between the partners in the agreed ratio. Raj's current account would be credited with his total profit share of $20 100 ($\frac{2}{3} \times$ $30 150).

Question 28

In a manufacturing account the opening work in progress is added to the production cost for the year and the closing work in progress is deducted. In other words, the production cost is adjusted for the difference in the work in progress. In this scenario the value of the opening work in progress was higher than the closing value so a net amount of $800 would be added to the cost of production. The key was **C**.

Question 29

Reconstructing a capital account would have been helpful when calculating the profit for the year. The credit side would show the opening balance and the capital introduced during the year. The drawings and the closing balance to carry down would appear on the debit side. The missing figure of $8000 represents the profit or the year (Option **A**).

Question 30

The cost of sales of $32 000 can be calculated using the formula average inventory multiplied by the rate of turnover. Cost of sales equals opening inventory plus purchases less closing inventory. So, the purchases must have been $31 200 (Option **B**).

ACCOUNTING

Paper 0452/12
Paper 12

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

Key messages

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Before selecting an option on the answer sheet candidates are advised to read through each item very carefully to ensure that they have a clear understanding of exactly what is required.

General comments

Those candidates who possessed 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.

Comments on specific questions

Question 2

Trade discount is never recorded in the ledger. The opening balance in the account represented the amount owed by Leah to Amraz. The net purchases for the month were $2850 not $2900. The key was **C**.

Question 8

Omitting to record the purchase of a machine and recording a vehicle in the repairs account resulted in the non-current assets being understated by $20 000. The omission of the purchase of the machine also meant that the bank account was overstated, so the working capital was also overstated by $5 000. The key was **C**.

Question 11

Recording the receipt of a loan as a revenue receipt resulted in the profit being overstated by $4800. Including loan interest for 12 months instead of 3 months in the income statements resulted in the profit being understated by $180. The correct profit for the year was $34 130.

Question 14

The amount of commission received during the current financial year included $210 relating to the previous financial year. The amount relating to the current year of $4640 would be transferred to the income statement by debiting the commission receivable account and crediting the income statement (Option **A**).

Question 16

When inventory is over-valued the cost of sales is understated so the profit for the year and the closing capital will both be overstated. The error also impacts on the following financial year as the closing inventory at the end of one year becomes the opening inventory for the following year. The cost of sales for the following financial year will be overstated, so the profit for the year will be understated. The key was **A**.

Question 19

The balance on Denise's current account increased from $2000 debit to $7000 credit, so it increased by $9000. There were no drawings and no interest or salary so the increase is wholly attributable to the share of profit. Denise was entitled to one third of the profit so the total profit must have been $27 000.

Question 21

The profit for the year will increase by $450 because of income omitted and will also increase by $175 as no adjustment was made for a prepaid expense. The key was **D**.

Question 22

A club's income and expenditure account is similar to the income statement of a business as it contains the revenue and expenses (including non-monetary expenses) of the financial period. A receipts and payments account is a summary of the bank account and contains all monies received and all monies paid during the financial period. The only correct statement is Option **B**.

Question 26

The gross profit was $41 000 (25 per cent of net sales) so the cost of sales was $123 000. The purchases were $129 000 so the closing inventory was $6 000.

Question 27

The cost of sales of $32 000 can be calculated using the formula average inventory multiplied by the rate of turnover. Cost of sales equals opening inventory plus purchases less closing inventory. So the purchases must have been $31 200 (Option **B**).

Question 32

In the absence of a change in the sales, a fall in the gross margin is the result of an increase in the cost of sales. In year 1 the gross profit was $45 000, the profit for the year $5000 and the expenses $40 000.
In year 2 the gross profit was $40 000 and the profit for the year was $3000. So, the expenses must have been $37 000 compared to $40 000 in the previous year. The key was **C**.

ACCOUNTING

Paper 0452/13
Paper 13

Question Number	Key	Question Number	Key	Question Number	Key
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9	A	21	D	33	D
10	D	22	B	34	D
11	B	23	D	35	C
12	A	24	C		

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

ACCOUNTING

Paper 0452/21
Paper 21

Key messages

Candidates are reminded of the need to read through each question very carefully before attempting an answer. This should assist them to understand exactly what the question requires.

It is the important to show calculations where necessary. Showing calculations means that it may be possible to earn some of the available marks even if the final answer is incorrect.

All words and figures must be legible. In addition, where a word or figure is changed the new version should be written clearly above or alongside the original.

Those candidates who required extra space to complete their answers generally indicated where the extra work was to be found, e.g. 'see page…' or 'continued on page…'. This ensured that the additional work was not overlooked

General comments

All the questions on this paper are compulsory. Candidates should, therefore, be familiar with all the topics on the syllabus.

The system of double entry book-keeping forms the basis of the day-to-day records of a business so a good knowledge of this is essential. In addition to the amounts, it is also important to pay attention to the words and dates.

Candidates should avoid the use of inappropriate abbreviations. For example abbreviations like 'COGS' for 'cost of goods sold', 'GP' for 'gross profit' and 'b/d' for 'balance' are not acceptable.

The paper contained three questions of five marks each where candidates were required to provide advice on a particular course of action. Preparing a preliminary list of points to be covered may assist candidates to provide a coherent response. A good answer should set out the advantages, disadvantages and provide a clear recommendation.

Comments on specific questions

Question 1

(a) A purchases journal had to be prepared. This should show the names of credit suppliers, the cost of goods purchased and the date of those purchases. The cost price should be the gross amount less any trade discount. The total of the journal is transferred to the purchases account at the end of the month. Some responses incorrectly included a debit and a credit column and attempted journal entries.

(b) Candidates were required to prepare a purchase returns journal. This is similar to a purchase journal but lists the purchases returns. Once again it is the net cost which is recorded. The total is transferred to the purchases returns account at the end of the month. Once again, some responses incorrectly included attempts at journal entries.

(c) The account of a credit supplier had to be prepared. The opening balance and the purchases should have been entered on the credit side. The payment, cash discount and returns should have been entered on the debit side. The account should have been balanced and the balance brought down.

(d) A table had to be completed to indicate whether trade payables and bank overdraft were current or non–current liabilities. This was generally well done.

(e) Candidates were required to advise a trader whether he should take longer to pay his suppliers in order to reduce his bank overdraft. Many responses included an appropriate discussion about the impact of the damage to the relationship with suppliers, the loss of cash discount or the interest charged for late payment. The advantages to this proposal included the reduction in the bank overdraft/delay in cash outflow and the reduction in bank interest. Some responses did not provide a recommendation or included an unqualified statement such as '*Yes*' or '*He should*'

Question 2

(a) An income statement for a sole trader had to be prepared. There were some good answers. Common errors included

- Sales returns added to revenue or completely omitted
- Incorrect order of components of cost of sales
- Goods for personal use incorrectly treated
- Discount received omitted or not displayed in correct position
- Incorrect adjustment to wages and rent and rates
- Incorrect calculation and/or incorrect narrative for provision for depreciation and provision for doubtful debts
- Inclusion of extraneous items such as book value of non-current assets

(b) Candidates were required to prepare a capital account. There were some good answers. Common errors included

- Omission of the drawings of goods
- Omission of the profit/loss for the year

(c) Candidates were required to advise a trader whether to accept a bank loan in order to expand her business. Many responses included an appropriate explanation of the disadvantages of having to repay the loan and pay interest. The advantages proved to be more troublesome. Mention could have been made of the fact that the trader had four years in which to repay and that the loan was probably the best way in which to obtain the funds. Many responses included the incorrect discussion of the potential increase in production - despite the fact that this was not a manufacturing business – and the opportunity to earn a higher profit. A clear recommendation on whether or not to agree to the bank loan was often omitted.

Question 3

(a) A journal entry to record the purchase of a non-current asset on credit was required. This was capital expenditure so the equipment account rather than the purchases account should have been debited. The account of YZH Limited should have been credited. A narrative was required but not all candidates followed this instruction.

(b) The majority of candidates correctly identified the effect on profit of three named expenses.

(c) Candidates were required to prepare journal entries to correct five errors. Those candidates who had a thorough knowledge of double entry were able to provide good answers.
Common errors included
Error 1 Making an entry in 'general ledger' instead of general expenses account
Crediting petty cash book rather than suspense account
Error 2 Not appreciating that the entry to correct the error should be for $36
Error 3 Crediting the bank account rather than the suspense account
Error 4 Not appreciating that to correct the error the amount had to be doubled
Error 5 Complete reversal of the entries

(d) A suspense account had to be prepared. Once again, a good knowledge of double entry was beneficial.
Common errors included
- Inclusion of extraneous items such as wages
- Bringing down a closing balance
- Not inserting the opening difference on the trial balance as the balancing figure

Question 4

(a) Candidates had to calculate five accounting ratios. In this type of question it is important that candidates know the formula which should be used for each calculation. It is also important to follow the instructions regarding the number of decimal places required and to understand how each ratio should be presented (a percentage, a number of times or a ratio)
Common errors included
- Incorrect calculation of gross profit and profit for the year
- Confusing the opening and closing inventories in the calculation of cost of sales and in the calculation of the current assets
- Inclusion of extraneous items such as bank balance added to the expenses
- Incorrect display of answer such as omitting the percentage sign or not showing ':1'

(b) Candidates were required to advice a trader whether to purchase a large quantity of inventory at a reduced price. At least one advantage and one disadvantage of the proposal should have been provided together with a clear recommendation. An increase in the amount of inventory does not necessarily lead to an increase in sales. The sales may increase because of the additional advertising and/or the selling price could be reduced because of the lower cost. This particular trader bought and sold household furnishings so the goods were not likely to exceed their 'best before date' but could deteriorate over a period of time or become unfashionable after a period of time.

(c) This question asked for the meaning and importance of the principle of consistency in the preparation of financial statements. It is important to understand that the principle of consistency requires that once an accounting method is selected it should be applied consistently from one financial year to the next, and not just consistently throughout one financial year. This ensures that the profit for a particular year will not be distorted and that accurate comparisons can be made with financial statements of previous years. It does not ensure accurate comparison with financial statements of other businesses.

(d) Two non-financial factors affecting the trading results of a business had to be identified. A number of responses included a concentration on financial factors such as demand and selling price. Others correctly concentrated on reputation, reliability of workforce, government decisions and so on.

Question 5

(a) (i) Candidates were required to prepare a subscriptions account. Some responses demonstrated a good understanding of the topic and gained good marks. Other responses did not show such a high level of preparation.
Common errors included
- Incorrect labelling such as 'owing' for 'balance' and 'income statement' for 'income and expenditure account'
- Inclusion of bank balance in place of subscriptions received
- Inclusion of extraneous items such as expenses and sales of refreshments
- Reversal of balances or complete reversal of the account
- Incorrect dates or omission of dates

(ii) Candidates were asked to explain whether the treasurer would be satisfied with the amount of subscriptions received. The answers should have concentrated on the fact that the amount received was less than the amount due for the year, the subscription prepaid decreased and the subscriptions accrued increased. Some candidates referred to accruals and prepayments in general rather than referring specifically to subscriptions. Others compared the subscriptions received with the club's expenses for the year. Many did not offer an opinion whether or not the treasurer would be satisfied.

(b) The club's profit on refreshments had to be calculated. Most candidates attempted to prepare an income statement, but, as only a calculation was required, any format was acceptable.
Common errors included

- Inclusion of extraneous items such as subscriptions and club expenses
- Omission of opening and/closing inventory
- Omission of adjustment to purchases for the opening and closing trade payables

(c) Candidates were required to prepare an extract from the statement of financial position of the club to show the current assets. The closing inventory and the rent prepaid were usually correctly identified but the other items were not always correctly included.
Common errors included

- Inclusion of extraneous items such as subscriptions received, opening inventory, monies received during the year, and current liabilities
- Omission of subscriptions in arrears
- Incorrect wording such as 'subs' or 'subscriptions unpaid' in lieu of 'subscriptions in arrears'
- Omitting to total the current assets.

ACCOUNTING

Paper 0452/22
Paper 22

Key messages

Accounting records and statements are generally very well presented by candidates and this clearly indicates regular practice in producing formal reports used by the owners of a business. Of equal importance is the information and calculations that support financial decision making. Answers were often not supported with an explanation of how calculations were made or detail provided of why information was relevant to answering a scenario based question. Financial information has to be scrutinised both internally and externally and calculations have to be recorded and should be subject to the same standard of accuracy and clarity of any statements that they support.

General comments

Candidates continue to be well prepared for activities such as writing up a cash book, producing an income statement and a statement of changes in equity. There remains a need for a clear understanding of the background required on how ledger accounts are recorded from books of prime entry **(1c)** and how errors can be corrected **(3a, 3b)**. Investment in time and effort in double entry recording cannot be overemphasised.

Almost 25 per cent of the questions required calculations ranging from 2 to 6 marks. Workings needed to be detailed with labels to show how an answer can be checked for marking and being audited in practice. **Questions (2d)** and **(5c)** were examples where marks could be easily missed especially if a single figure answer is given that is incorrect. Process marks are given in the mark scheme for the steps to be taken to arrive at an answer; **(3c)** is a good example. The netting-off of figures risks missing out on all the 5 marks available.

It is worth repeating before and after every examination sitting, that where candidates cross out answers or make an addition/alteration at a later stage it is most important that they instruct the Examiner for example 'refer to page 21 of the answer booklet' so that all possible marks can be gained.

Comments on specific questions

Question 1

(a) The entering up of a three column cashbook is a popular exercise and represents a high return in marks for the majority of candidates. Narratives must indicate the name of the account where the corresponding double entry is made and therefore descriptions such as receipts from sales or payments for motor expenses were not accepted. The cash book will only record cash and bank movements and a common error was the inclusion of the purchase of goods on credit (15th April) from Rahat. In addition to this error many candidates could not calculate correctly the discount received from Samir and Rafael. The information can be given in different ways and requires careful reading to ensure the correct calculation of the discount is achieved. The total of the discount received column is not 'balanced-off'; again this is a common error and demonstrates a lack of practice in writing-up all types of cash books.

(b) A regular systems control exercise linked to maintaining the cash book correctly is a bank reconciliation exercise. The format of this question required a theoretical understanding of how certain transactions would impact upon either the bank statement or the cash book. Many candidates thought incorrectly that the impact would be upon both simultaneously. The first transaction of bank charges will be shown on the bank statement and is then entered into the cash book once the charge is known. This process is the same for manual and computerised accounting systems. Candidates need to be prepared to answer this style of question as well as being able to give a written description of the process and these further aids the understanding of this topic.

(c) The last part of this question related to the transactions in **part (a)** and to the entering up of appropriate entries into the purchase ledger account of Rahat. The purchase on credit from Rahat for $320 is recorded after deducting any trade discount which is not recorded in the books of Peter. Only cash discount/discount received of $42 is recorded upon payment on April 3rd. Incorrect narratives of sales and discounts allowed were frequently seen and this indicated a lack of practice of posting into ledger accounts from the relevant books of prime entry. A sound understanding of double entry bookkeeping provides a firm basis to achieving high marks from this question.

Question 2

(a) Many small businesses do not keep a full set of books (double entry accounts) and require the reconstruction of financial statements through a receipts and payments account and the opening and closing capital positions through a 'statement of affairs'. The first exercise required the missing entry for cash drawings to be determined. Receipts and payments could be entered either individually or in a total amount of debits and credits and the missing figure for cash/bank drawings could be deduced. Common errors were the closing balance being entered as an opening balance and general expenses being omitted from the account.

(b) Once cash drawings had been established the drawings for goods could be calculated. Mark up on cost of 25 per cent represents a 20 per cent profit on revenue. Therefore goods withdrawn for own use of $3375 at selling price represent 80 per cent at cost price ($3375 × 0.8 = $2700). Far too often 25 per cent was calculated on the selling price or $3375 was grossed up by ×4. Weaker responses, in addition to being unable to calculate the mark up/margin correctly, were also unaware that cash and drawings for goods required aggregating.

(c) The next stage in this question was to produce a closing statement of affairs which is basically a formal statement drawn up on the same principles as a statement of financial position. The only difference being that a statement of affairs is not based upon full double entry records. Candidates were expected to produce a statement that observed correct presentation of assets and liabilities and not as a calculation or in the form of a trial balance. Most candidates achieved 4 or the maximum of 5 marks.

(d) This was the most challenging aspect of this question. The ability to calculate the profit for the year can be achieved by mapping the movements between the opening and closing capital. This is a standard approach to producing a profit figure which is then used as a control for producing a completed income statement. The recommended approach is to apply the following calculation:

Closing capital + Drawings – capital introduced = Profit for the year

Many candidates however seemed unaware of this approach and attempted to arrive at a profit figure by reconstructing an income statement. It was possible to arrive at a correct answer using this technique and marks were given on a comparable basis if this approach was adopted.

(e) This was the first of the 5 mark written questions that required considering the merits for and against of selling some goods on credit. This was a popular question and enabled candidates to achieve a moderate score overall. Candidates are more practised in the approach with a balanced look at both sides before making a clear recommendation of which action to pursue. A score of between 3 and 5 marks could be achieved by most candidates. There are a minority who provide their answer as an academic discussion and do not arrive at a clear recommendation. It is not possible to gain a recommendation mark if this approach is followed.

Question 3

(a) The entering up of the general journal is a common procedure in practice and used to correct errors and record non-standard entries into an accounting system. Eleven marks could be achieved as significant reward for those candidates who understood how bookkeeping errors had occurred and then apply the correct entries. It is important to remember that not all errors will require an entry through a suspense account.

Errors that were frequently made or well answered:

1. Debiting discount received and crediting commission received with the same amount. As the bank had been correctly entered this was a single entry error and therefore an amount of $192 is required to be posted to the suspense account.
2. Sales journal $927 debit. There is no ledger account of this name. As the credit did not equal the debit entry the difference again is posted to the suspense account.
3. Well answered.
4. Credit entry label of 'electronic transfer'. This was the method of payment and does not represent the name of the account.
5. Well answered.

(b) Journal entries made in **part (3a)** are transferred to the suspense account. Own figure marks were given for sales and the difference on trial balance entry. This label is important and the difference will close the suspense account. If a balance remains on the suspense account this indicates that there is an error in the bookkeeping that still needs to be resolved.

(c) The errors numbers 1 – 5 will have an effect upon the original profit of $39 970. Candidates had to apply logic based upon their knowledge of income and expenditure items that will change profit and those items that do not (errors 4 and 5). The clear presentation of the adjustments with labels and the direction of travel (+ or –) is crucial. Netting-off of figures can easily be overlooked and would be heavily criticised by auditors in practice.

Question 4

(a) (i) This question surprisingly was more challenging than expected. Each type of inventory required a valuation based upon its cost per unit + any carriage cost. If the selling price was less than the cost price then the lower value was selected as inventory is valued at the lower of cost and net realisable value. Many candidates were unaware of this accounting standard and incorrect answers often included the selling price or omitted the cost of delivering inventory to its present location. Consequently valuations for envelopes and notepads were invariably incorrect.

The valuation of inventory is an integral part of producing accurate financial statements. For this reason this type of activity should be given the same level of attention and practice as those of producing the final accounting statements for all businesses.

(ii) Basic knowledge required of the accounting principle of 'prudence'. Ideally this principle can be linked with the topic and methods used for inventory valuation in the preceding **Question (3ai)**.

(b) (i) A very well answered question. Tick box exercises are popular with candidates and the distinction between capital and revenue expenditure was relatively unchallenging for all candidates. If there were any knowledge gaps they related to installation and delivery costs and they are considered commissioning costs and included within the capital cost of the non-current asset.

(ii) The materiality principle and how it is applied to non-current assets was a challenging question. One of the two marks would be gained for explaining that what is material for a small business may not be for a larger business. The aspect that the cost of recording the non-current asset far outweighed the benefit and could be considered as revenue expenditure was rarely explored.

(c) Tick box exercise highlighting the impact of categorising a bank loan as a revenue receipt upon capital and liabilities. Most candidates would gain at least one mark and stronger candidates would achieve both marks.

(d) There was a subtle difference to this question and in some responses there was not an appreciation of this, possibly because there is always a need to read the question carefully. Many answers just described the methods of calculating the straight-line and reducing balance method of depreciation. Stronger answers would draw out the advantages and disadvantages of changing from reducing balance to the straight-line method. Highlighting the impact of the change upon annual depreciation and the accuracy of the book value of non-current assets would be considered. The need to observe the principle of consistency was regularly included in answers but rarely developed with the outcomes that follow from failing to apply the principle as posed in the question.

A candidate could achieve up to 3 marks for highlighting either advantages or disadvantages but required at least one advantage and one disadvantage to achieve a recommendation mark.

Question 5

(a) Always a popular style of question a trial balance with a series of standard adjustments for a limited company that required the preparation of the annual income statement. The trading account was straight forward and the expenses with a prepayment and accrual were treated generally correctly and presented to a very high standard. Most candidates were able to achieve 5 marks or more for this question.

A very common error was the inclusion of the opening and/or closing provision for doubtful debts. The charge in this case is the difference between the opening and closing balance on the provision. By including a balance of the provision in the income statement it is a fundamental error in principle that will corrupt the profit figure for the year and the retained earnings for the company.

(b) The statement of changes in equity represents the next stage in the preparation of the final accounting statements and involves taking the profit calculated from **(5a)** into retained earnings and allocating any dividends paid/transfers to or from the general reserve and arriving at closing balances for each category making up the equity of the company. This should be a straightforward exercise, but it does take practice. Weaker answers would arrive at the opening balance at the year end, or frequently indicating the direction of travel (+/–) incorrectly. A cross-check of adding down and across the columns is always recommended.

(c) This question has been highlighted in the general comments section of this report. It required the calculation of the liquid ratio from the financial information provided in **(5a)**. The current assets and current liabilities are made up of seven components. It is most important to show what the totals include so that own figure marks can be awarded for example the final ratio. Too often extraneous figures were included such as non-current assets and reserves.

(d) The last question required a discussion of the merits of issuing further ordinary shares or requesting a bank overdraft to fund the purchase of equipment. There were many very strong answers highlighting the various qualities of the funding methods and their associated disadvantages. Dividends and annual interest were correctly raised and the degree of permanency versus the need to repay the overdraft and interest at some stage in the future. Scores of 4 and 5 marks were regularly achieved by good candidates.

A popular misconception that some candidates have and that is regularly seen in their answers is ‘the bank will supply whatever the business needs’. This is not the case and the reality of this possibility should be factored into a balanced discussion of this type.

ACCOUNTING

Paper 0452/22
Paper 23

Key messages

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Candidates continue to be well prepared for activities such as writing up a cash book, producing an income statement and a statement of changes in equity. There remains a need for a clear understanding of the background required on how ledger accounts are recorded from books of prime entry **(1c)** and how errors can be corrected **(3a, 3b)**. Investment in time and effort in double entry recording cannot be overemphasised.

Almost 25 per cent of the questions required calculations ranging from 2 to 6 marks. Workings needed to be detailed with labels to show how an answer can be checked for marking and being audited in practice. **Questions (2d)** and **(5c)** were examples where marks could be easily missed especially if a single figure answer is given that is incorrect. Process marks are given in the mark scheme for the steps to be taken to arrive at an answer; **(3c)** is a good example. The netting-off of figures risks missing out on all the 5 marks available.

It is worth repeating before and after every examination sitting, that where candidates cross out answers or make an addition/alteration at a later stage it is most important that they instruct the Examiner for example 'refer to page 21 of the answer booklet' so that all possible marks can be gained.

Comments on specific questions

Question 1

(a) The entering up of a three column cashbook is a popular exercise and represents a high return in marks for the majority of candidates. Narratives must indicate the name of the account where the corresponding double entry is made and therefore descriptions such as receipts from sales or payments for motor expenses were not accepted. The cash book will only record cash and bank movements and a common error was the inclusion of the purchase of goods on credit (15th April) from Rahat. In addition to this error many candidates could not calculate correctly the discount received from Samir and Rafael. The information can be given in different ways and requires careful reading to ensure the correct calculation of the discount is achieved. The total of the discount received column is not 'balanced-off'; again this is a common error and demonstrates a lack of practice in writing-up all types of cash books.

(b) A regular systems control exercise linked to maintaining the cash book correctly is a bank reconciliation exercise. The format of this question required a theoretical understanding of how certain transactions would impact upon either the bank statement or the cash book. Many candidates thought incorrectly that the impact would be upon both simultaneously. The first transaction of bank charges will be shown on the bank statement and is then entered into the cash book once the charge is known. This process is the same for manual and computerised accounting systems. Candidates need to be prepared to answer this style of question as well as being able to give a written description of the process and these further aids the understanding of this topic.

(c) The last part of this question related to the transactions in **part (a)** and to the entering up of appropriate entries into the purchase ledger account of Rahat. The purchase on credit from Rahat for $320 is recorded after deducting any trade discount which is not recorded in the books of Peter. Only cash discount/discount received of $42 is recorded upon payment on April 3rd. Incorrect narratives of sales and discounts allowed were frequently seen and this indicated a lack of practice of posting into ledger accounts from the relevant books of prime entry. A sound understanding of double entry bookkeeping provides a firm basis to achieving high marks from this question.

Question 2

(a) Many small businesses do not keep a full set of books (double entry accounts) and require the reconstruction of financial statements through a receipts and payments account and the opening and closing capital positions through a 'statement of affairs'. The first exercise required the missing entry for cash drawings to be determined. Receipts and payments could be entered either individually or in a total amount of debits and credits and the missing figure for cash/bank drawings could be deduced. Common errors were the closing balance being entered as an opening balance and general expenses being omitted from the account.

(b) Once cash drawings had been established the drawings for goods could be calculated. Mark up on cost of 25 per cent represents a 20 per cent profit on revenue. Therefore goods withdrawn for own use of $3375 at selling price represent 80 per cent at cost price ($3375 × 0.8 = $2700). Far too often 25 per cent was calculated on the selling price or $3375 was grossed up by ×4. Weaker responses, in addition to being unable to calculate the mark up/margin correctly, were also unaware that cash and drawings for goods required aggregating.

(c) The next stage in this question was to produce a closing statement of affairs which is basically a formal statement drawn up on the same principles as a statement of financial position. The only difference being that a statement of affairs is not based upon full double entry records. Candidates were expected to produce a statement that observed correct presentation of assets and liabilities and not as a calculation or in the form of a trial balance. Most candidates achieved 4 or the maximum of 5 marks.

(d) This was the most challenging aspect of this question. The ability to calculate the profit for the year can be achieved by mapping the movements between the opening and closing capital. This is a standard approach to producing a profit figure which is then used as a control for producing a completed income statement. The recommended approach is to apply the following calculation:

Closing capital + Drawings – capital introduced = Profit for the year

Many candidates however seemed unaware of this approach and attempted to arrive at a profit figure by reconstructing an income statement. It was possible to arrive at a correct answer using this technique and marks were given on a comparable basis if this approach was adopted.

(e) This was the first of the 5 mark written questions that required considering the merits for and against of selling some goods on credit. This was a popular question and enabled candidates to achieve a moderate score overall. Candidates are more practised in the approach with a balanced look at both sides before making a clear recommendation of which action to pursue. A score of between 3 and 5 marks could be achieved by most candidates. There are a minority who provide their answer as an academic discussion and do not arrive at a clear recommendation. It is not possible to gain a recommendation mark if this approach is followed.

Question 3

(a) The entering up of the general journal is a common procedure in practice and used to correct errors and record non-standard entries into an accounting system. Eleven marks could be achieved as significant reward for those candidates who understood how bookkeeping errors had occurred and then apply the correct entries. It is important to remember that not all errors will require an entry through a suspense account.

Errors that were frequently made or well answered:

1. Debiting discount received and crediting commission received with the same amount. As the bank had been correctly entered this was a single entry error and therefore an amount of $192 is required to be posted to the suspense account.
2. Sales journal $927 debit. There is no ledger account of this name. As the credit did not equal the debit entry the difference again is posted to the suspense account.
3. Well answered.
4. Credit entry label of 'electronic transfer'. This was the method of payment and does not represent the name of the account.
5. Well answered.

(b) Journal entries made in **part (3a)** are transferred to the suspense account. Own figure marks were given for sales and the difference on trial balance entry. This label is important and the difference will close the suspense account. If a balance remains on the suspense account this indicates that there is an error in the bookkeeping that still needs to be resolved.

(c) The errors numbers 1 – 5 will have an effect upon the original profit of $39 970. Candidates had to apply logic based upon their knowledge of income and expenditure items that will change profit and those items that do not (errors 4 and 5). The clear presentation of the adjustments with labels and the direction of travel (+ or –) is crucial. Netting-off of figures can easily be overlooked and would be heavily criticised by auditors in practice.

Question 4

(a) (i) This question surprisingly was more challenging than expected. Each type of inventory required a valuation based upon its cost per unit + any carriage cost. If the selling price was less than the cost price then the lower value was selected as inventory is valued at the lower of cost and net realisable value. Many candidates were unaware of this accounting standard and incorrect answers often included the selling price or omitted the cost of delivering inventory to its present location. Consequently valuations for envelopes and notepads were invariably incorrect.

The valuation of inventory is an integral part of producing accurate financial statements. For this reason this type of activity should be given the same level of attention and practice as those of producing the final accounting statements for all businesses.

(ii) Basic knowledge required of the accounting principle of 'prudence'. Ideally this principle can be linked with the topic and methods used for inventory valuation in the preceding **Question (3ai)**.

(b) (i) A very well answered question. Tick box exercises are popular with candidates and the distinction between capital and revenue expenditure was relatively unchallenging for all candidates. If there were any knowledge gaps they related to installation and delivery costs and they are considered commissioning costs and included within the capital cost of the non-current asset.

(ii) The materiality principle and how it is applied to non-current assets was a challenging question. One of the two marks would be gained for explaining that what is material for a small business may not be for a larger business. The aspect that the cost of recording the non-current asset far outweighed the benefit and could be considered as revenue expenditure was rarely explored.

(c) Tick box exercise highlighting the impact of categorising a bank loan as a revenue receipt upon capital and liabilities. Most candidates would gain at least one mark and stronger candidates would achieve both marks.

(d) There was a subtle difference to this question and in some responses there was not an appreciation of this, possibly because there is always a need to read the question carefully. Many answers just described the methods of calculating the straight-line and reducing balance method of depreciation. Stronger answers would draw out the advantages and disadvantages of changing from reducing balance to the straight-line method. Highlighting the impact of the change upon annual depreciation and the accuracy of the book value of non-current assets would be considered. The need to observe the principle of consistency was regularly included in answers but rarely developed with the outcomes that follow from failing to apply the principle as posed in the question.

A candidate could achieve up to 3 marks for highlighting either advantages or disadvantages but required at least one advantage and one disadvantage to achieve a recommendation mark.

Question 5

(a) Always a popular style of question a trial balance with a series of standard adjustments for a limited company that required the preparation of the annual income statement. The trading account was straight forward and the expenses with a prepayment and accrual were treated generally correctly and presented to a very high standard. Most candidates were able to achieve 5 marks or more for this question.

A very common error was the inclusion of the opening and/or closing provision for doubtful debts. The charge in this case is the difference between the opening and closing balance on the provision. By including a balance of the provision in the income statement it is a fundamental error in principle that will corrupt the profit figure for the year and the retained earnings for the company.

(b) The statement of changes in equity represents the next stage in the preparation of the final accounting statements and involves taking the profit calculated from **(5a)** into retained earnings and allocating any dividends paid/transfers to or from the general reserve and arriving at closing balances for each category making up the equity of the company. This should be a straightforward exercise, but it does take practice. Weaker answers would arrive at the opening balance at the year end, or frequently indicating the direction of travel (+/–) incorrectly. A cross-check of adding down and across the columns is always recommended.

(c) This question has been highlighted in the general comments section of this report. It required the calculation of the liquid ratio from the financial information provided in **(5a)**. The current assets and current liabilities are made up of seven components. It is most important to show what the totals include so that own figure marks can be awarded for example the final ratio. Too often extraneous figures were included such as non-current assets and reserves.

(d) The last question required a discussion of the merits of issuing further ordinary shares or requesting a bank overdraft to fund the purchase of equipment. There were many very strong answers highlighting the various qualities of the funding methods and their associated disadvantages. Dividends and annual interest were correctly raised and the degree of permanency versus the need to repay the overdraft and interest at some stage in the future. Scores of 4 and 5 marks were regularly achieved by good candidates.

A popular misconception that some candidates have and that is regularly seen in their answers is ‘the bank will supply whatever the business needs’. This is not the case and the reality of this possibility should be factored into a balanced discussion of this type.