

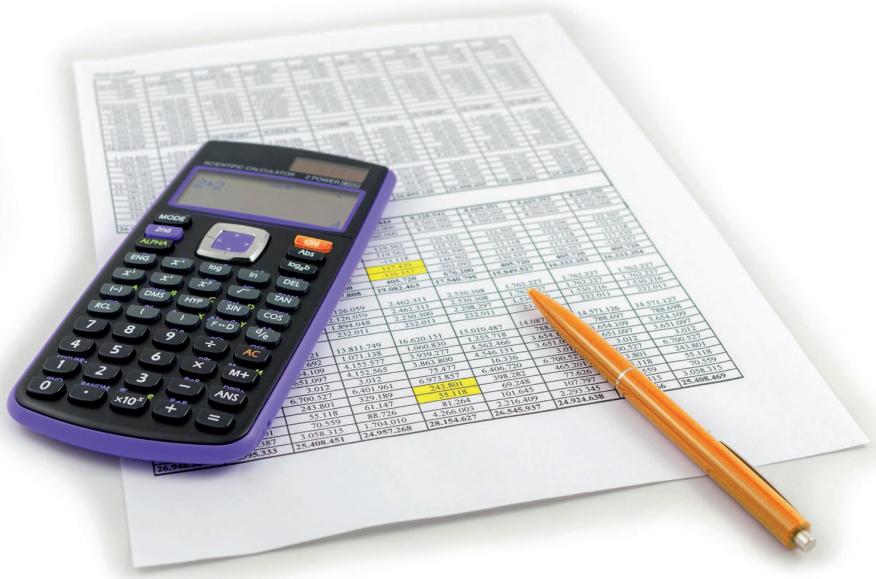


## Example Candidate Responses Paper 2

**Cambridge IGCSE™ / IGCSE (9–1)  
Accounting 0452 / 0985**

**Cambridge O Level  
Accounting 7707**

For examination from 2020



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## Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge IGCSE/IGCSE (9-1) Accounting 0452 / 0985, and Cambridge O Level Accounting 7707 to show how different levels of candidates' performance (high, middle or low) relate to the subject's curriculum and assessment objectives.

In this booklet, candidate responses have been chosen from March 2020 scripts to exemplify a range of answers.

For each question, the response is annotated with a clear explanation of where and why marks were awarded or omitted. This is followed by examiner comments on how the answer could have been improved. In this way, it is possible for you to understand what candidates have done to gain their marks and what they could do to improve their answers. There is also a list of common mistakes candidates made in their answers, where relevant.

This document provides illustrative examples of candidate work with some examiner commentary. These help teachers assess the standard required to achieve marks beyond the guidance of the mark scheme. Therefore, in some circumstances, such as where exact answers are required, there will not be much comment.

The questions and mark schemes used here are available to download from the School Support Hub. These files are:

**0452 March 2020 Question Paper 22**

**0452 March 2020 Paper 22 Mark Schemes**

Past exam resources and other teaching and learning resources are available on the School Support Hub:

[www.cambridgeinternational.org/support](http://www.cambridgeinternational.org/support)

## How to use this booklet

This booklet goes through the paper one question at a time, showing you the high-, middle- or low-level response for each question. The candidate answers are set in a table. In the left-hand column are the candidate answers, and in the right-hand column are the examiner comments.

### Example Candidate Response – Question 1, high

### Examiner comments

Amara Petty Cash Book						
Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	2020 January 1	Balance (b/d)				
135	January 1	1 Petty cash				
3		Stationery	24		24	
7		travelling expenses	49	49		
14		Raz ven	85			85
22		TAXI fare	18	18		
	29	Postage	11		11	
			187	67	35	85
	31	Bank (vd)	16			
200	2020		200			
13	February 1	Balance (b/d)				

**Answers** are by real candidates in exam conditions. These show you the types of answers for each level. Discuss and analyse the answers with your learners in the classroom to improve their skills.

1 Petty cash is an incorrect narrative as this transaction is being posted into the petty cash book. The correct narrative is 'bank' indicating the corresponding credit entry for the double entry system.  
Mark for (a) = 9 out of 10

**Examiner comments** are alongside the answers. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams so you can help your learners to refine their exam technique.

## How the candidate could have improved their answer

- (a) This candidate could have used the correct narratives that indicated how the imprest amount had been restored via the bank and the payments made to Amara by petty cash. The presentation of all ledger accounts and cash books were very important.
- (d) This part required two single discrete answers. Multiple answers were given, including incorrect examples such as a standing order, which should have been avoided. In this style of question, only the first two answers were rewarded to avoid multiple guesses.

This section explains how the candidate could have improved each answer. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.

## Common mistakes candidates made in this question

- Inaccurate narratives were entered into the petty cash book.
- Incorrect restoration and balancing of the imprest levels of the petty cash system.
- Failure to deduct discount from sales returns figure based upon the list price of goods.
- Reversed debit and credit entries were used when preparing Amara's account.

Often candidates were not awarded marks because they misread or misinterpreted the questions.

Lists the common mistakes candidates made in answering each question. This will help your learners to avoid these mistakes and give them the best chance of achieving the available marks.

## Question 1

Example Candidate Response – high	Examiner comments
<p>1 Amara maintains a petty cash book using the imprest system. The imprest amount of \$200 is restored on the first day of each month. On 1 January 2020 Amara had a balance of \$65 in her petty cash.</p> <p>All payments of less than \$100 are made from petty cash.</p> <p>On 1 January 2020, Amara owed \$85 to Razvan, a credit supplier.</p> <p>Amara provided the following information for January 2020.</p> <p>January    1/ The petty cash imprest was restored from the business bank account.               3/ Purchased stationery for cash, \$24               7/ Paid travelling expenses, \$49               14/ Paid Razvan the amount outstanding on his account               15/ Purchased goods on credit from Razvan, \$200 less 10% trade discount               22/ Paid taxi-fare, \$18               28/ Returned goods to Razvan which had been purchased on 19 January, list price \$40               29/ Paid postage, \$11</p> <p><b>REQUIRED</b></p> <p>(a) Prepare Amara's petty cash book for the month of January 2020, on the page opposite.</p> <p>Balance the petty cash book and bring down the balance on 1 February 2020.</p>	

## Example Candidate Response – high, continued

## Examiner comments

Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	2020 January 1.	Balance (b/d).....				
135	January 1.	① Petty cash.....				
	3	Stationery.....	24		24	
	7	travelling expenses.....	49	49		
	14	Raz ven.....	85			85
	22	Taxi fare.....	18	18		
	29	Postage.....	11		11	
			187	67	35	85
200	2020	Balance (d/b)	13			
13	February 1	Balances (d/b).....				

- 1 'Petty' cash is an incorrect narrative as this transaction is being posted into the petty cash book. The correct narrative is 'bank' indicating the corresponding credit entry for the double entry system.  
Mark for (a) = 9 out of 10

## Example Candidate Response – high, continued

## Examiner comments

Amara's supplier, Razvan, maintains a full set of accounting records.

## REQUIRED

- (b) Prepare the account of Amara as it would appear in the ledger of Razvan.

Balance the account and bring down the balance on 1 February 2020.

Razvan Amara account					
Date	Details	\$	Date	Details	\$
2020 January 1	Balance b/d	85	2020 January 14	Petty cash	85
19	Sales	180	28	Sales returns	36
			31	Balance fd	144
		265			265
2020 February 1	Balance b/d	144			

[6]

On 2 February 2020 Amara paid the balance due to Razvan. She deducted cash discount of 2%.

## REQUIRED

- (c) Complete the following table by placing a tick (✓) in the correct column to show how Razvan should record the cash discount. Where an account has no entry, tick 'no entry'.

	debit	credit	no entry
Amara account		✓	
Discount allowed account	✓		
Discount received account			✓

3

[2]

Amara usually pays Razvan by cash or cheque.

## REQUIRED

- (d) State two other methods which Amara could use to pay Razvan from her bank account.

- 1 Direct debit  
2 Credit transfer / Standing order  
3 Cheque.

4

[Total: 20]

- 2 The correct narrative is 'petty cash', indicating the corresponding debit entry into the double entry system.  
Mark for (b) = 5 out of 6

- 3 The answer is correct.  
Mark for (c) = 2 out of 2

- 4 Full marks are awarded as point one and the first answer in point two are correct.  
Mark for (d) = 2 out of 2

Total mark awarded =  
18 out of 20

## How the candidate could have improved their answer

- (a) This candidate should have used the correct narratives that indicated how the imprest amount had been restored via the bank and the payments made to Amara by petty cash. The presentation of all ledger accounts and cash books are very important.
- (d) This part required two single discrete answers. Multiple answers were given, including incorrect examples such as a standing order, which should have been avoided. In this style of question, only the first two answers were rewarded to avoid multiple guesses.

**Example Candidate Response – middle****Examiner comments**

- 1 Amara maintains a petty cash book using the imprest system. The imprest amount of \$200 is restored on the first day of each month. On 1 January 2020 Amara had a balance of \$65 in her petty cash.

All payments of less than \$100 are made from petty cash.

On 1 January 2020, Amara owed \$85 to Razvan, a credit supplier.

Amara provided the following information for January 2020.

- January ✓ The petty cash imprest was restored from the business bank account.
- ✓ Purchased stationery for cash, \$24
  - ✓ Paid travelling expenses, \$49
  - ✓ Paid Razvan the amount outstanding on his account
  - ✓ Purchased goods on credit from Razvan, \$200 less 10% trade discount
  - ✓ Paid taxi fare, \$18
  - ✓ Returned goods to Razvan which had been purchased on 19 January, list price \$40
  - ✓ Paid postage, \$11

**REQUIRED**

- (a) Prepare Amara's petty cash book for the month of January 2020, on the page opposite.

Balance the petty cash book and bring down the balance on 1 February 2020.

## Example Candidate Response – middle, continued

## Examiner comments

Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	1.Jan.2020	Balance brought down.....				
135	1.Jan.2020	Bank purchased ① stationery, Razvan	24	49	24	
	3.Jan.2020		49	49		
	7.Jan.2020	Traveling expenses.....				
	14.Jan.2020	Razvan	85			85
	22.Jan.2020	Razvan Taxi fare.....	18	18		
	29.Jan.2020	Postage.....	11		11	
	31.Jan.2020	Balance carried down.....	3			
<del>200</del>			<del>200</del>	67	35	85
200			200			
② 3	1.Feb.2020	Balance brought down.....				

1 The candidate uses 'purchased' which is an incorrect narrative and is only used for buying goods for resale. The correct narrative is 'stationery' on its own.

2 The correct figure is \$13 for the balance brought down.  
Mark for (a) = 8 out of 10

## Example Candidate Response – middle, continued

## Examiner comments

Amara's supplier, Razvan, maintains a full set of accounting records.

## REQUIRED

- (b) Prepare the account of Amara as it would appear in the ledger of Razvan.

Balance the account and bring down the balance on 1 February 2020.

Razvan Amara account					
Date 20 Jan 1 Feb	Details	\$	Date 2020 14 Jan	Details	\$
	Balance b/d	85		Bank ..... 3	85
	Bank sales			Sales ..... 150	
19 Jan	Sales	180	28 Jan	Sales returns ..... 40	40
			31 Dec	Balance c/d ..... 140	140
2020 1 Feb	Balance b/d	265			265
		140			

③ 'Bank' is an incorrect narrative. Amara is a customer of Razvan, and the balance brought down on the account is \$85. This is paid-off by Amara using petty cash, which is the correct narrative.

④ Sales returns are incorrectly recorded at the gross amount. The list price should be reduced by 10% as trade discount. Mark for (b) = 4 out of 6

⑤ The first tick is incorrectly shown as a debit. Discount allowed is incorrectly shown as a credit, resulting in no mark as both discounts require correct answers. Mark for (c) = 0 out of 2

On 2 February 2020 Amara paid the balance due to Razvan. She deducted cash discount of 2%.

## REQUIRED

- (c) Complete the following table by placing a tick (✓) in the correct column to show how Razvan should record the cash discount. Where an account has no entry, tick 'no entry'.

	debit	credit	no entry
Amara account	✓		
Discount allowed account	✗	5 ✓	
Discount received account			✓

[2]

Amara usually pays Razvan by cash or cheque.

## REQUIRED

- (d) State two other methods which Amara could use to pay Razvan from her bank account.

1 ... Bank transfer .....  
2 ... Online transfer ..... [2]

[Total: 20]

Mark for (d) = 2 out of 2

**Total mark awarded =  
14 out of 20**

## How the candidate could have improved their answer

- (a) The narratives in all ledger accounts represent the exact location for corresponding entries in the accounting system and accuracy is required for tracking and auditing purposes. Precise narratives were required to avoid confusion, in this case, caused by the use of the term 'purchased stationery'. 'Purchased stationery' was the transaction, not the account name. The second error occurred when the cash book was balanced-off. The total of the analysis columns (in this case \$187) is a method known as cross-casting and aids the checking process, which would have reduced the chance of this type of error.
- (b) This candidate was required to identify how trade discount was deducted from a list price before any sales or sales returns were entered into the accounting system. The distinction between how trade and cash discounts are treated is fundamental in avoiding an incorrect entry and balance in the customer account. Regular practice of entering sales and purchase ledger transactions would have reduced this book-keeping error.
- (c) This question assessed the understanding of recording debits and credits into a sales ledger account and recognising that 'discount allowed' was an expense, as the customer was allowed to reduce the amount that they owed by 2%. Practice in producing ledger accounts and recording double entry transactions would have improved the understanding required for this style of question.

Example Candidate Response – low	Examiner comments
<p>1 Amara maintains a petty cash book using the imprest system. The imprest amount of \$200 is restored on the first day of each month. On 1 January 2020 Amara had a balance of \$65 in her petty cash.</p> <p>All payments of less than \$100 are made from petty cash.</p> <p>On 1 January 2020, Amara owed \$85 to Razvan, a credit supplier.</p> <p>Amara provided the following information for January 2020.</p> <p>January 1 The petty cash imprest was restored from the business bank account.</p> <p>3 Purchased stationery for cash, \$24</p> <p>7 Paid travelling expenses, \$49</p> <p>14 Paid Razvan the amount outstanding on his account</p> <p>19 Purchased goods on credit from Razvan, \$200 less 10% trade discount</p> <p>22 Paid taxi fare, \$18</p> <p>28 Returned goods to Razvan which had been purchased on 19 January, list price \$40</p> <p>29 Paid postage, \$11</p> <p><b>REQUIRED</b></p> <p>(a) Prepare Amara's petty cash book for the month of January 2020, on the page opposite.</p> <p>Balance the petty cash book and bring down the balance on 1 February 2020.</p>	

## Example Candidate Response – low, continued

## Examiner comments

Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	2020 Jan. 1	Balance bld.				
135		Bank amount restored				
	3.	..... purchases stationery 1	24		24	
	7.	Travelling expenses	49	49		
	14	Razvan	85			85
	22	..... Park. taxi fare 2	18	18		
40	3.	..... returns to Razvan				
	28.	Paid postage				
	29. 4		11		11	1
			187 <del>EE</del>	67	35	85
		Balance cld.	93			
240	5. 5	Balance bld.	240			
63	2020 Feb. 1					

1 'Purchases' is an incorrect narrative. It indicates the buying of goods for resale. The correct narrative is 'stationery' on its own.

2 The candidate uses an incorrect narrative. The correct account name and narrative is 'taxi fare'.

3 A return of goods does not involve a cash transaction and is not, therefore, recorded in the petty cash book.

4 The candidate uses an incorrect narrative. The correct name of the account and narrative is 'postage'.

5 The candidate provides an incorrect answer. One mark is awarded for the final correct answer only.

Mark for (a) = 6 out of 10

## Example Candidate Response – low, continued

### Examiner comments

Amara's supplier, Razvan, maintains a full set of accounting records.

#### REQUIRED

- (b) Prepare the account of Amara as it would appear in the ledger of Razvan.

Balance the account and bring down the balance on 1 February 2020.

Razvan Amara account					
Date 2020 Jan. 28	Details <i>Returns</i>	\$ 46	Date 2020 Jan. 14	Details <i>Bank</i>	\$ 85
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
31	<i>Balance c/d</i>	<u>225</u>	.....	.....	.....
.....	.....	<u>265</u>	.....	.....	.....
.....	.....	.....	2020 Feb. 1	.....	.....
.....	.....	.....	.....	<i>Balance b/d</i>	<u>225</u>
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

- 6 The transactions are reversed, and bank narrative is incorrect. The candidate does not record a balance b/d at 1 January 2020. An own figure for the balance b/d on 1 February is allowed as it could arise on either the debit or credit side of the account.  
 Mark for (b) = 2 out of 6

On 2 February 2020 Amara paid the balance due to Razvan. She deducted cash discount of 2%.

#### REQUIRED

- (c) Complete the following table by placing a tick (✓) in the correct column to show how Razvan should record the cash discount. Where an account has no entry, tick 'no entry'.

	debit	credit	'no entry'
Amara account		✓	
Discount allowed account	✓		
Discount received account			✓

[6]

Mark for (c) = 2 out of 2

Amara usually pays Razvan by cash or cheque.

#### REQUIRED

- (d) State two other methods which Amara could use to pay Razvan from her bank account.

1 *Credit transfer*  
 2 7

[2]

[Total: 20]

- 7 The candidate's answer requires a second method of payment from a bank account.  
 Mark for (d) = 1 out of 2

**Total mark awarded =  
11 out of 20**

## How the candidate could have improved their answer

- **(a)** This candidate needed to be more precise in the narratives entered into the petty cash book. Narratives indicate the corresponding entry into a named ledger account in a double entry system and accuracy is important for tracking and auditing purposes. This candidate stated the transaction rather than the account name.
- **(b)** Answers indicated that the candidate had reversed debits and credits. More practice in entering transactions into the sales and purchases ledgers, as well as entering payments, leads to a better overall understanding of the accounting system.
- **(c)** This question required two methods of making payments from a bank, excluding cheques. There were many traditional methods which have been expanded by the use of electronic and internet banking facilities. These methods were included in the mark scheme and they could have been considered in this context.

## Common mistakes candidates made in this question

- Inaccurate narratives were entered into the petty cash book.
- Incorrect restoration and balancing of the imprest levels of the petty cash system.
- Failure to deduct discount from sales returns figure based upon the list price of goods.
- Reversed debit and credit entries were used when preparing Amara's account.

**Question 2****Example Candidate Response – high****Examiner comments**

**2** GHB Limited maintains a full set of accounting records and prepares monthly control accounts.

The following information was provided for November 2019.

	\$
Purchases ledger control account balance at 1 November	?
<b>Totals for November:</b>	
Purchases journal ✓	14 200
Purchases returns journal ✓	1 160
Cash purchases ✗	5 390
Commission receivable ✗	2 110
Cash discount received ✓	650
Cash discount allowed ✗	710
Cheques paid to trade payables ✓	11 420
Sales ledger contra ✓	250
Interest charged by trade payables ✓	95
Cheque refunds from trade payables	330
Purchases ledger control account balance at 30 November	13 195

**REQUIRED**

**(a)** Prepare the purchases ledger control account for GHB Limited for November 2019.

Balance the account on 30 November 2019 and bring down the balance on 1 December 2019.

**GHB Limited**  
**Purchases ledger control account**

Date	Details	\$	Date	Details	\$
2019.....	.....	.....	2019.....	.....	.....
Nov 30	Purchase Returns	1160	Nov 1	Balances b/d	12050
.....	Discount Received	650	30	Purchases	14200
.....	Bank	11420	30	Interest charged	95
30	Sales Ledger (C)	250	30	Refunds (Bank)	330
30	Balance c/d	13195			26675
		26675			
			Dec 1	Balances b/d	13195

**1** The narratives for both entries of ‘interest’ and ‘bank’ lack accuracy. The narratives indicate the corresponding ledger account for tracking in the double entry system. Specific terminology is required and ‘Interest charged’ and ‘Refunds (Bank)’ are not accepted.  
Mark for (a) = 7 out of 9

[9]

## Example Candidate Response – high, continued

## Examiner comments

A delivery vehicle was purchased by cheque during November 2019.

## REQUIRED

- (b) State two reasons why the purchase of the delivery vehicle was not recorded in the purchases ledger control account.

- 1 ...This because only the amounts of credit...~~.....~~ supplies of goods is maintained in purchases ledger control.
- 2 ...It is an capital expenditure...~~.....~~ and it is a...  
.....non-current asset..... [2]

Mark for (b) = 2 out of 2

- (c) (i) State the most appropriate method of depreciation for the new delivery vehicle.

~~.....~~ Diminishing Balance Method [1]

Mark for (c)(i) = 1 out of 1

- (ii) State three reasons for your answer to (c) (i).

- 1 ...As the business would be getting the most benefit...  
.....of the asset in its early years.....
- 2 ...Due to technological improvements, future...  
.....vehicle would be better and value of this one would be less..... [2]
- 3 ...Over time...and then, the asset won't be as useful...  
.....in the future so lesser depreciation is charged..... [3]

2 This vehicle is new and therefore the impact of future technological improvement is not considered relevant for determining initial depreciation.

3 The aspect of wear and tear needs to be expanded, with emphasis on heavy initial usage which results in extra depreciation being charged in the earliest years. This unequal use of the vehicle subsequently leads to lower depreciation being charged in later years.

Mark for (c)(ii) = 1 out of 3

## Example Candidate Response – high, continued

## Examiner comments

The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250 000 will be required for this expansion. The directors are considering whether to issue additional ordinary shares or to obtain a long-term bank loan.

**REQUIRED**

- (d) Advise the directors which of these two methods of finance is more appropriate.

Justify your answer with **one** advantage and **one** disadvantage of **each** option.

*Dilution of ownership would be a good option for GHB. 4  
 Limited would have to pay the money back in the future so cost would increase. However it would dilute the ownership of the company and affect the loan. Holders of existing shareholders will receive less return. This will be disadvantageous as it will dilute ownership if and dividend shares remain the same. However it will add to the long-term liabilities of the business and increase costs of interest that has to be paid. I think it's best they issue shares as this wouldn't increase the costs 7  
 and allow the business to make higher profits even though shareholders are satisfied.*

8

[Total: 20]

4 The candidate makes a key point here that ordinary shares are permanent capital and do not have to be repaid by the company.

5 One mark is awarded for stating that extra shares may lead to the dilution of ownership.

6 One mark is awarded for pointing out that if a long-term loan is opened this leads to increased cost as interest is charged.

7 The candidate makes a clear recommendation to issue ordinary shares based on earlier correct comments regarding the issue of shares and long-term loans in the answer.

8 No advantage is given for opening the loan. Dilution of ownership applies to the issue of additional ordinary shares.  
 Mark for (d) = 4 out of 5

**Total mark awarded =  
 15 out of 20**

## How the candidate could have improved their answer

- (a) The narratives used by this candidate in posting to the purchase ledger control account needed to be specific to the corresponding ledger accounts used in the book-keeping system. The terminology is specific and does not require development, as this leads to confusion when tracing errors or following an audit trail. The transaction was a refund, but the account involved was the bank account.
- (c)(ii) This candidate should have considered more detailed reasons for selecting the reducing balance method of depreciation.
- (d) The candidate should have given a clear advantage for opening a long-term loan. The question asked to justify the answer by giving one advantage and one disadvantage for each option. Marks were allocated accordingly. Candidates are advised to follow the structure suggested by the mark scheme.

## Example Candidate Response – middle

## Examiner comments

- 2 GHB Limited maintains a full set of accounting records and prepares monthly control accounts.

The following information was provided for November 2019.

	\$
Purchases ledger control account balance at 1 November	?
Totals for November:	
Purchases journal	14 200
Purchases returns journal	1 160
Cash purchases	5 390
Commission receivable	2 110
Cash discount received	650
Cash discount allowed	710
Cheques paid to trade payables	11 420
Sales ledger contras	250
Interest charged by trade payables	95
Cheque refunds from trade payables	330
Purchases ledger control account balance at 30 November	13 195

## REQUIRED

- (a) Prepare the purchases ledger control account for GHB Limited for November 2019.

Balance the account on 30 November 2019 and bring down the balance on 1 December 2019.

GHB Limited  
Purchases ledger control account

Date	Details	\$	Date	Details	\$
31 Nov	Purchase return	11 600	1 Nov	Balance b/d	7320 <span style="color: red;">1</span>
	Cash discount	650	31 Nov	Purchases	14 200.0
	Bank	11 420		Cash	5 390.0 <span style="color: red;">2</span>
3	Sales	250		Interest charged	95 <span style="color: red;">4</span>
5	Refund	330			
	Balance c/d	13 195			
		27005	2019	Balance b/d	13 195
			1 Dec		

[9]

1 The own figure mark is not awarded as the account includes a cash purchase known as an extraneous item, which should not be included in a ledger control account and corrupts the balance accordingly.

2 A cash purchase is an extraneous item and does not appear in the purchase ledger control account.

3 The candidate uses an incorrect narrative. The correct narrative is 'sales ledger'.

4 The candidate uses an incorrect narrative. The narrative must refer to the specific account such as interest or interest payable.

5 'Refund' does not refer to a specific account; in this case, the corresponding entry is from the bank account.

Mark for (a) = 5 out of 9

## Example Candidate Response – middle, continued

## Examiner comments

A delivery vehicle was purchased by cheque during November 2019.

### REQUIRED

- (b) State two reasons why the purchase of the delivery vehicle was not recorded in the purchases ledger control account.

1 Purchase of goods are only recorded in the purchases ledger control account.  
 2 Purchase of delivery vehicle is the purchase of non-current asset and purchases ledger control a/c is creditors a/c [2]

- (c) (i) State the most appropriate method of depreciation for the new delivery vehicle.

Reducing balance method [1]

- (ii) State three reasons for your answer to (c) (i).

1 Being there will be the balance of the value of the vehicle is never nil. 6  
 2 As each year the depreciation is charged on the book value not the cost, so it is more appropriate. 7  
 3 At last a scrap value is left to resale which help in calculating the resale value. 8 [3]

Mark for (b) = 2 out of 2

Mark for (c)(i) = 1 out of 1

6 The candidate's answer does not represent a reason for using the reducing balance method.

7 The candidate needs to give a reason and explain why depreciation is charged on the net book value rather than cost.

8 The candidate's answer is too vague, as any method of calculating depreciation will arrive at a possible resale value. The answer should specify why the reducing balance method is chosen in part (c)(i).  
 Mark for (c)(ii) = 0 out of 3

## Example Candidate Response – middle, continued

## Examiner comments

The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250 000 will be required for this expansion. The directors are considering whether to issue additional ordinary shares or to obtain a long-term bank loan.

**REQUIRED**

- (d) Advise the directors which of these two methods of finance is more appropriate.

Justify your answer with one advantage and one disadvantage of each option.

*The shareholders business if obtain along term  
loan then it need to pay a fixed rate  
of interest 9 per annum. Whereas if the  
business issue ordinary share it need to  
pay a share of profit to the shareholders  
in the form of dividend 10 which might  
be more than the interest need to pay  
the to bank on loan. Hence it should 11  
go for a long term bank loan.*

9 One mark is awarded for the point that interest has to be paid on a long-term loan.

10 One mark is awarded for the point that shareholders are paid a dividend, representing an extra cost in return for issuing extra shares.

11 The candidate makes a clear recommendation for a long-term loan.

Mark for (d) = 3 out of 5

**Total mark awarded =**

**11 out of 20**

## How the candidate could have improved their answer

- (a) This candidate had a clear understanding of debit and credit entries in the ledger account, but all postings needed to refer to specific corresponding ledger accounts in the book-keeping system. The candidate did not recognise that all transactions supplied in the question were not automatically required and some were extraneous items. Candidates need to be selective at times and not assume that all transactions are relevant to the account requested.
- (b)(ii) This question required specific reasons for applying the reducing balance method of depreciation. The reasons given by the candidate were vague statements that lacked clarity and could have been applied to any chosen method of depreciation.
- (d) The candidate's answer identified only one disadvantage for each method. This candidate could have developed the answer by supplying an advantage for each method.

## Example Candidate Response – low

## Examiner comments

- 2 GHB Limited maintains a full set of accounting records and prepares monthly control accounts.

The following information was provided for November 2019.

	\$
Purchases ledger control account balance at 1 November	?
Totals for November:	
Purchases journal	14200
Purchases returns journal	1160
Cash purchases	5390
Commission receivable	2110
Cash discount received	650
Cash discount allowed	710
Cheques paid to trade payables	11420
Sales ledger contras	250
Interest charged by trade payables	95
Cheque refunds from trade payables	330
Purchases ledger control account balance at 30 November	13195

**REQUIRED**

- (a) Prepare the purchases ledger control account for GHB Limited for November 2019.

Balance the account on 30 November 2019 and bring down the balance on 1 December 2019.

GHB Limited  
Purchases ledger control account

Date	Details	\$	Date	Details	\$
	Bal. b/d.		Nov. 1	Bal. b/d.	12710
	Purchases returns			Purchases Journal	14200
	Journal	1160		Interest charged	95
	Cash discount received	650			
	Bank	11420			
	Sales ledger	250			
2	Cheque refunds	330			
	Bal. c/d.	13195			
		27005			27005
		3			

[9]

- 1 The candidate uses an incorrect narrative. The correct narrative is 'interest' or 'interest payable'.
- 2 The candidate uses an incorrect narrative. The entry is posted to the wrong side of the account. The correct narrative is 'bank'.
- 3 The candidate does not record the credit balance brought down on 1 December of \$13195.  
Mark for (a) = 6 out of 9

## Example Candidate Response – low, continued

## Examiner comments

A delivery vehicle was purchased by cheque during November 2019.

**REQUIRED**

- (b) State two reasons why the purchase of the delivery vehicle was not recorded in the purchases ledger control account.

1 Purchases ledger control account records credit only credit purchases. 4

2 Delivery vehicle is not related to creditors. 5

- (c) (i) State the most appropriate method of depreciation for the new delivery vehicle.

Reducing straight line method. 6 [1]

- (ii) State three reasons for your answer to (c) (i).

1 Straight line method applies prudence principle that it will not overstate profit and underanticipate all possible losses. 7

2 It applies 'matching' principle. -

3 It estimates the value of the non-current assets in the market over its useful life in the market. 3

4 The purchase ledger control account only includes purchases of goods for resale. Assets can be purchased on credit, but they do not appear in this account.

5 A delivery vehicle can be purchased on credit. The reason it is not included is because it is the recording of a non-current asset which represents capital expenditure and not goods for resale.

Mark for (b) = 0 out of 2

6 The candidate does not state the correct method.

Mark for (c)(i) = 0 out of 1

7 As the answer to part (c)(i) is incorrect, no marks are awarded for part (c)(ii).

Mark for (c)(ii) = 0 out of 3

## Example Candidate Response – low, continued

## Examiner comments

The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250 000 will be required for this expansion. The directors are considering whether to issue additional ordinary shares or to obtain a long-term bank loan.

### REQUIRED

- (d) Advise the directors which of these two methods of finance is more appropriate.

Justify your answer with one advantage and one disadvantage of each option.

*Finance expansion will increase non-current assets.*

*Issuing additional ordinary shares will increase capital and reserves but it will not carry*

**8** *voting rights and have variable fixed rate*

*of dividend dividend. A long term bank loan*

*will increase non-current liabilities and*

*will have to be repaid before any repay of*

*shareholders. They carry a fixed rate of*

**9** *interest. But it will increase non-current*

*liabilities. ~~which the~~ Directors of GHB Limited*

*should issue ordinary shares.*

**10**

[5]

[Total: 20]

**8** Any addition to the shares will carry voting rights and any dividends payable to the shareholders will have variable dividends payable. Therefore, both statements made here by the candidate are incorrect.

**9** Key point: long-term loan incurs interest.

**10** The candidate makes a recommendation; however, this needs to be supported by one correct comment related to the loan and the issuing of ordinary shares. Therefore, the additional decision mark is not awarded. Mark for (d) = 1 out of 5

**Total mark awarded =  
7 out of 20**

## How the candidate could have improved their answer

- **(a)** This candidate understood the correct side of the account for posting debit and credit entries. The narratives should have been specific to what referred to corresponding accounts in the book-keeping system, such as 'interest payable' and 'bank'. It was important to highlight the need to balance the account and bring it down to the next accounting period, in this case, 1 December. This figure was used to check against the total of all purchase ledger account balances and was the main reason for producing a purchase ledger control account.
- **(b)** This question required an explanation as to why capital expenditure items were not included in a purchase ledger control account. The purpose of why this account was produced needed to be understood which would have helped develop an understanding of the components that were entered or not entered in the account. In this context, the motor vehicle was not purchased as goods for the purpose of resale.
- **(c)(i)(ii)** This answer had to distinguish and select an appropriate method of depreciation for a particular type of non-current asset. There were well-established methods for calculating the most accurate amounts of depreciation charged in the accounts for different types of assets. The candidate needed clear understanding of the differences between straight-line and reducing balance methods in order to have produced accurate financial statements.
- **(d)** The candidate lacked basic knowledge of each type of funding. Therefore, they were unable to provide justification for the option selected. The statements made were incorrect and lacked structure in how to answer this style of question.

## Common mistakes candidates made in this question

- Candidates often reversed control accounts entries.
- Candidates included cash purchase transactions that did not appear in the purchase ledger control account.
- Some candidates incorrectly entered the closing balance on the credit side of the account.
- Some candidates gave unclear explanations for the reasons and advantages of applying the reducing balance method of depreciation.
- Many candidates did not clearly identify advantages and disadvantages for both ordinary shares and a long-term bank loan.

## Question 3

### Example Candidate Response – high

### Examiner comments

- 3 Tia and Sarna are partners in a trading business.

Their trial balance at 31 December 2019 was as follows:

	debit	credit
	\$	\$
Revenue		124 000
Inventory at 1 January 2019	5 390	~
Purchases	55 440	
Discount allowed	2 400	
Discount received		1 385
Carriage outwards	6 160	
Insurance	7 920	~
General expenses	8 100	
Wages	9 600	
Trade receivables	11 590	
Trade payables		6 051
Bank	8 136	
Premises at cost	90 000	
Furniture at cost	24 000	
Provision for depreciation on furniture		5 600
Capital accounts		
Tia		80 000
Sarna		40 000
Current accounts		
Tia		2 100
Sarna		1 600
Drawings		
Tia	15 000	
Sarna	17 000	
	<u>260 736</u>	<u>260 736</u>

#### Additional information

- 1 Inventory at 31 December 2019 was valued at \$5165.
- 2 Depreciation on furniture is to be charged at 20% per annum using the straight-line method.
- 3 The insurance includes a payment of \$2160 for the 12 months from 1 July 2019 to 30 June 2020.
- 4 The partnership agreement provides for  
interest on capital of 5% per annum  
a salary to Tia of \$6000 per annum  
residual profits and losses to be shared equally

## Example Candidate Response – high, continued

## Examiner comments

**REQUIRED**

- (a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna  
Income Statement for the year ended 31 December 2019

	\$	\$
.....Revenue.....	124 000	
.....COST OF SALES.....	.....	
.....OPENING INVENTORY.....	5390	
.....+ PURCHASES.....	55440	
	60 830	
.....- CLOSING INVENTORY.....	- 5165	5 5665
.....GROSS PROFIT.....	6 833.5	
.....+ DISCOUNT RECEIVED.....	138.5	
 ..... - EXPENSES.....	 .....	 69 720
.....Carriage Outwards.....	6160	1
.....Insurance (9920 - (2160 x 2)) PROV. FOR (24000 x 0.2)	6 840	
Appreciation on Furniture.....	4800	
.....General expenses.....	8100	
.....Wages.....	9600	35 500
.....PROFIT FOR THE YEAR.....	34 220	6 920.00

1 The combined mark for discounts allowed and carriage outwards is not awarded as the figure for discounts is missing.

2 The profit figure is an own figure mark, if it is correctly deducted from the total income figure.

Mark for (a) = 7 out of 8

[8]

## Example Candidate Response – high, continued

### Examiner comments

- (b) Prepare the appropriation account for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna Appropriation Account for the year ended 31 December 2019		
	\$	\$
.....Profit for the year.....	.....	34220... <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">3</span>
- Interest on capital.....TIA.....	4000...	.....
.....Sarna.....	2000	6000
.....	..... <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">4</span>	28220...
.....Partner's Salary.....TIA.....	.....	6000
.....	.....	22220...
.....PROFIT share.....TIA.....	11110...	11110 <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">5</span>
.....Sarna.....	11110	22220...
.....	.....	.....
.....	.....	.....
.....	.....	.....

③ The profit own figure is brought forward from part (a).

④ Interest on capital and partner's salary is correct.

⑤ The profit share mark is awarded as the own figure of \$22220 is correctly appropriated on a 50:50 basis.

Mark for (b) = 4 out of 4

- (c) Prepare the current account for Sarna for the year ended 31 December 2019. Balance the account and bring down the balance on 1 January 2020.

Tia and Sarna  
Sarna current account

Date 2-19 31 Dec	Details	\$	Date 2-19 1.Jan.	Details	\$
	.....drawings.....	11000	1.Jan.	.....Balance b/d.....	11000
	<del>Interest on drawings</del>		31 Dec	.....Profit share.....	11110 <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">6</span>
				.....Interest on capital.....	2000
			31	.....Balance c/d.....	2290
		11000			11000
2020 1.Jan	.....Balance b/d.....	2290 <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">7</span>			

⑥ Profit share is own figure brought forward from (b).

⑦ Balance brought down is an own figure brought down correctly on the debit side.  
Mark for (c) = 4 out of 4

**Example Candidate Response – high, continued****Examiner comments**

Tia and Sarna are considering transferring \$7000 from the business bank account to an interest-bearing deposit account.

**REQUIRED**

- (d) Advise the partners whether or not they should make this transfer. Justify your answer by providing advantages and disadvantages.

...transferring...\$7000...would...mean...Tia...and...Sarna...maybe  
able...to...get...high...returns...from...the...interest...bearing...8  
account...so...in...the...future...they...may...able...to...finance  
buying...expensive...non...current...assets...easily...However  
the...cash...would...not...be...accessible...In...the...short...9  
term...and...the...bank...balance...would...fall...to...  
\$1136...so...the...business...may...not...have...sufficient...  
working...capital...to...pay...short...term...debts...Also  
Tia...and...Sarna's...business...current...ratio...may...fall...10  
so...its...liquidity...may...decrease...Therefore...they...[4]  
should not make the transfer.

[Total: 20]

8 The candidate assumes that when funds go in a deposit account, the business will get 'high returns' and this would enable the business to buy expensive non-current assets. This is not correct even if the interest rates are exceedingly high. It would only give some small return that would help reduce existing costs. No mark was awarded.

9 Not being able to access cash in the short term is a clear disadvantage.

10 A second disadvantage is that the business does not have sufficient working capital. There are no advantages identified for either option. Therefore, the recommendation made by the candidate does not receive this additional mark.

Mark for (d) = 2 out of 4

**Total mark awarded =  
17 out of 20**

**How the candidate could have improved their answer**

- (a) The candidate should have ticked discounts allowed, which indicated that it needed to be treated in the accounting statement.
- (d) The candidate should have provided a valid advantage point for one of the options they recommended. If the candidate had written the owners would gain interest on the amount transferred, they would have been awarded an extra mark. An interest-bearing deposit account would not give 'high returns'.

**Example Candidate Response – middle****Examiner comments**

- 3 Tia and Sarna are partners in a trading business.

Their trial balance at 31 December 2019 was as follows:

Tia and Sarna Trial Balance at 31 December 2019		
	debit	credit
	\$	\$
Revenue		124000
Inventory at 1 January 2019	5390	
Purchases	55440	
Discount allowed	2400	
Discount received		1385
Carriage outwards	6160	
Insurance	7920	
General expenses	8100	
Wages	9600	
Trade receivables	11590	
Trade payables		6051
Bank	8136	
Premises at cost	90000	
Furniture at cost	24000	
Provision for depreciation on furniture		5600
Capital accounts		
Tia		80000
Sarna		40000
Current accounts		
Tia		2100
Sarna		1600
Drawings		
Tia	15000	
Sarna	17000	
	<hr/> <u>260736</u>	<hr/> <u>260736</u>

## Additional information

- 1 Inventory at 31 December 2019 was valued at \$5165.
- 2 Depreciation on furniture is to be charged at 20% per annum using the straight-line method.
- 3 The insurance includes a payment of \$2160 for the 12 months from 1 July 2019 to 30 June 2020.
- 4 The partnership agreement provides for interest on capital of 5% per annum a salary to Tia of \$6000 per annum residual profits and losses to be shared equally

## Example Candidate Response – middle, continued

## Examiner comments

## REQUIRED

- (a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna  
Income Statement for the year ended 31 December 2019

	\$	\$
<u>Revenue</u>		<u>124 000</u>
<u>Less Cost of sales</u>		
	5390	
<u>Opening Inventory</u>	55440	
<u>Purchases</u>	6160	1
<u>Carriage outwards</u>	6690	
<u>Less closing inventory</u>	(5165)	61825
<u>GROSS PROFIT</u>		62175
<u>Add Incomes</u>		
<u>Discount received</u>		1385
		63560
<u>Less Expenses</u>		
<u>Discount allowed</u>	2400	
<u>Insurance (2160/12 x 6)</u>	1080	2
<u>General expenses</u>	8100	
<u>Wages</u>	9600	
<u>Less for depreciation on furniture</u>	4800	25980
<u>NET PROFIT</u>		37580

1 Carriage outwards is an expense and does not appear in the trading account. This is an unrelated item and means that the gross profit is incorrect. Therefore, no mark is awarded.

2 The insurance calculation is incorrect; the \$1080 should be deducted from the amount paid during the year.  
Mark for (a) = 4 out of 8

[8]

**Example Candidate Response – middle, continued**

**Examiner comments**

- (b) Prepare the appropriation account for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna Appropriation Account for the year ended 31 December 2019		
<u>Less Profit for the year</u>	\$	3
<u>Add Interest on Capital</u>	Tia	
	4000	
	2000	
	6000	
	6000	
<u>Partner's salary – Tia</u>		
	12000	
	25580	
<u>Profit Share – Tia</u>	12790	4
	– Sarna	
	12790	

3 The profit is an error carried forward.

4 The profit share is a correct calculation on 50:50 basis. However, due to an error carried forward, the result is not correct. Mark for (b) = 4 out of 4

[4]

- (c) Prepare the current account for Sarna for the year ended 31 December 2019. Balance the account and bring down the balance on 1 January 2020.

Tia and Sarna Sarna current account					
Date 2019 Dec 31	Details	\$	Date 2019 Dec 31	Details	\$
	<u>Drawings</u>	17000		<u>Capital</u>	40,000
				<u>Interest on Capital</u>	2000
	<u>Balance C/d</u>	37790		<u>Profit share</u>	12790
		54790			54790
			2020 Jan 1	<u>Balance b/d</u>	37790

5 Capital account balances are not entered into the current account. The impact is that the balance brought down on the account is not correct. Mark for (c) = 3 out of 4

[4]

## Example Candidate Response – middle, continued

## Examiner comments

Tia and Sama are considering transferring \$7000 from the business bank account to an interest-bearing deposit account.

**REQUIRED**

- (d) Advise the partners whether or not they should make this transfer. Justify your answer by providing advantages and disadvantages.

*Tia and Sama are considering transferring \$7000 to an interest-bearing deposit account, which according to me is a good decision as during emergencies ~~we~~ finance will be <sup>6</sup> available to the business. Although interest would have to be paid <sup>7</sup> which is an expense for Tia and Sama.*

[4]

[Total: 20]

**6** The candidate's statement is incorrect, as it may not be possible to withdraw cash.

**7** This is also an incorrect statement as the investment account pays interest. To gain a recommendation mark, the candidate must provide a correct advantage and disadvantage, yet neither are made.

Mark for (d) = 0 out of 4

**Total mark awarded =  
11 out of 20**

## How the candidate could have improved their answer

- **(a)** It was important that items were identified correctly in terms of where they were included within the trading or expenses section of the income statement. Carriage outwards was an expense and did not appear in the trading section. Carriage inwards did appear in the trading section but was not included in this question. The insurance calculation was also incorrect.
- **(c)** The candidate should not have included the capital account balance. Partnership current accounts were maintained to record regular transactions from the appropriation account and drawings. It was essential to separate fixed capitals from current accounts and vice versa.
- **(d)** The candidate should have followed the specific instructions to answer this question; discuss two advantages and two disadvantages of depositing funds into an interest-bearing account. The candidate also misread the question and answered from the perspective of borrowing a loan with resources readily available. It was important to identify the direction that funds were moving in and this would have determined whether interest was paid or received.

**Example Candidate Response – low****Examiner comments**

- 3 Tia and Sarna are partners in a trading business.

Their trial balance at 31 December 2019 was as follows:

Tia and Sarna Trial Balance at 31 December 2019		
	debit \$	credit \$
Revenue		124 000
Inventory at 1 January 2019	5 390	
Purchases	55 440	
Discount allowed	2 400	
Discount received		1 385
Carriage outwards	6 160	
Insurance	7 920	
General expenses	8 100	
Wages	9 600	
Trade receivables	11 590	
Trade payables		6 051
Bank	8 136	
Premises at cost	90 000	
Furniture at cost	24 000	
Provision for depreciation on furniture		5 600
Capital accounts		
Tia		80 000
Sarna		40 000
Current accounts		
Tia		2 100
Sarna		1 600
Drawings		
Tia	15 000	
Sarna	17 000	
	<u>260 736</u>	<u>260 736</u>

## Additional information

- 1 Inventory at 31 December 2019 was valued at \$5165.
- 2 Depreciation on furniture is to be charged at 20% per annum using the straight-line method.
- 3 The insurance includes a payment of \$2160 for the 12 months from 1 July 2019 to 30 June 2020.
- 4 The partnership agreement provides for
  - interest on capital of 5% per annum
  - a salary to Tia of \$6000 per annum
  - residual profits and losses to be shared equally

## Example Candidate Response – low, continued

## Examiner comments

## REQUIRED

- (a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna  
Income Statement for the year ended 31 December 2019

	\$	\$
Revenue	124000	
	124000	
Opening Stock	5390	
Purchases	65440	
Closing Stock	<u>(6165)</u>	
<del>Total</del> COST OF SALES	<u>(35,665)</u>	
	<u>68335</u>	
All: Other Incomes		
Discount Received	1385	
Other Expenses		
Carriage Outwards	6160	
Insurance(1920 + 2190)	<del>7920</del> 10110	
General Expenses	8100	
Wages	9600	
* Dep. to Furniture <del>18600 - 5600</del>	22320	
NET PROFIT	<u>(56290)</u>	
	<u>13430</u>	

1 The candidate has not included the narrative for gross profit.

2 Discounts allowed narrative and figure are both missing.

3 The candidate provides an adjustment to insurance which is an incorrect calculation. It is also being added and treated as an accrual when it is actually a prepayment.

4 The calculation of depreciation is incorrect, as the candidate uses the reducing balance method. A further error is made by adding their adjustment onto the net book value of the furniture.  
Mark for (a) = 4 out of 8

$$\begin{aligned} & * (24000 - 5600) \times 20\% \\ & = 3720 \end{aligned}$$

## Example Candidate Response – low, continued

## Examiner comments

- (b) Prepare the appropriation account for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna  
Appropriation Account for the year ended 31 December 2019

<i>Profit for the year</i>	\$	<i>13 430</i>
<i>Interest on Capital : Tia (Proceeds x 5%)</i>	<i>4000</i>	
<i>Sarna (Proceeds x 5%)</i>	<i>2000</i>	
	<u><i>6000</i></u>	<i>(8000)</i> <b>5</b>
<i>Interest on Drawings : Tia (No Interest)</i>	<i>15000</i>	
<i>Sarna ( " )</i>	<i>17000</i>	<i>(32 000)</i> <b>6</b>
<i>Salary of the Partner</i>		<i>6000</i> <b>7</b>
<i>Profits share : Tia (13 430 ÷ 2)</i>	<i>6715</i>	
<i>Sarna (13 430 ÷ 2)</i>	<i>6715</i>	<i>13 430</i>
<i>PROFIT LOSS</i>		<i>-7140</i> <b>8</b>

**5** Interest is calculated correctly, but the total of \$8000 is an incorrect amount deducted from profit.

**6** Interest on drawings is not part of this partnership agreement and does not appear in this statement. A further error is made as the amounts used are the actual drawings by the partners. This error affects the mark for the resulting loss as they are current account transactions.

**7** Tia's salary is added instead of being deducted. The relevant name of the partner should also be identified alongside the salary narrative.

**8** Final calculation of loss is incorrect due to the inclusion of actual drawings highlighted in note 6.

Mark for (b) = 1 out of 4

- (c) Prepare the current account for Sarna for the year ended 31 December 2019. Balance the account and bring down the balance on 1 January 2020.

Tia and Sarna  
Sarna current account

Date	Details	\$	Date	Details	\$
2019			2019		
31 Dec.	<i>Drawing</i>	<i>11000</i>	31 Dec.	<i>Balance 6/12</i>	<i>1620</i>
b	<i>Loss</i>	<i>67140</i>	"	<i>Salary</i>	<i>6000</i> <b>9</b>
			"	<i>Interest on Capital</i>	<i>2000</i>
			"	<i>Balance 6/12</i>	<i>14540</i>
					<i>29140</i>
2020:					
Jan 1	<i>Balance 6/12</i>	<i>14 540</i> <b>11</b>			

**9** Tia's salary should not appear in Sarna's current account and, therefore, it contaminates the own figure balance brought down on 1 January.

**10** The loss is an own figure mark calculated in part (b). Sarna's share of the loss is \$6715 meaning an incorrect figure is brought forward.

**11** No mark is given for the balance brought down due to the extraneous item of Tia's salary being included incorrectly in Sarna's current account.  
Mark for (c) = 2 out of 4

Example Candidate Response – low, continued	Examiner comments
<p>Tia and Sarna are considering transferring \$7000 from the business bank account to an interest-bearing deposit account.</p> <p><b>REQUIRED</b></p> <p>(d) Advise the partners whether or not they should make this transfer. Justify your answer by providing advantages and disadvantages.</p> <p><i>If would help them pay</i> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">12</span></p> <p>..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... [4]</p> <p>[Total: 20]</p>	<p><span style="border: 1px solid red; border-radius: 50%; padding: 2px;">12</span> The candidate does not identify advantages or disadvantages. Mark for (d) = 0 out of 4</p> <p><b>Total mark awarded = 7 out of 20</b></p>

### How the candidate could have improved their answer

- The marks for any items recorded in financial statements required figures to be accompanied by a suitable narrative. Expenses and revenues required adjustments such as accruals and prepayments, as well as calculations of the amounts charged for depreciation. This candidate had some knowledge of the techniques required but mixed them up, which demonstrated a lack of practice in applying them consistently.
- The entries into the appropriation account and current accounts were linked and followed double entry rules. A systematic approach was required in practice that covered a total approach to completing the income statement, followed by the appropriation account and the final transfers to all current accounts. This approach provided a firm grounding for producing partnership accounts and could have avoided the combined errors produced in the answers to parts (a), (b) and (c) of this question.
- (d) This part required the candidate to have some knowledge of how to deal with a business which has excess funds available and to ensure that some returns are earned until cash is required for normal business use. This use of excess funds, or the need to secure extra working capital, is a common business scenario. Basic knowledge of the advantages and disadvantages of opening loans and deposit accounts was needed for effective cashflow management. For example, 'Was treasury management a little dated'? 'Could it have been replaced with cash flow management'?

### Common mistakes candidates made in this question

- Candidates often gave incorrect calculations of adjustments to expense items such as insurance and depreciation in the income statement.
- Some candidates included extraneous items such as interest on drawings in the appropriation account. This usually appears in the appropriation account but was not asked for in this question.
- Candidates often posted the opening balance incorrectly, the closing balance not brought down to 1 January and incorrect items such as salary for Tia were included in the current account of Sarna.
- Many candidates' answers offered one or two advantages, or disadvantages, and did not offer a balanced answer that enabled a sound recommendation to be made. Candidates needed to balance advantages and disadvantages associated with the option of transferring funds to a deposit account.

## Question 4

### Example Candidate Response – high

### Examiner comments

- 4 Arjun is a sole trader.

Arjun prepared a trial balance on 31 January 2020. The totals of the debit and credit sides differed. This difference was placed in a suspense account.

Arjun later discovered the following errors.

- ✓ 1 The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account.
- ✓ 2 \$200 received from the sale of fittings (net book value \$150) had been correctly debited but had been credited to the fixtures and fittings account.
- ✗ 3 Cash drawings, \$40, had been correctly debited but had been credited to the purchases account.
- ✓ 4 The total of the analysis column for cleaning in the petty cash book, \$73, had been transferred to both the cleaning account and the office expenses account.
- ✗ 5 The purchase of equipment, \$575, had been credited to the equipment repairs account. The bank account had been correctly credited.
- 6 No entries had been made for a cheque payment for office expenses, \$90.
- 7 A cheque, \$69, paid to Simone had been posted to the account of Simon.

## Example Candidate Response – high, continued

## Examiner comments

## REQUIRED

- (a) Prepare journal entries to correct errors 1, 2 and 3.

Narratives are required.

Arjun  
Journal

Error number	Details	Debit \$	Credit \$
1)	Commission receivable	135	
	Discount received		135
	(being correctly recording		
	① discount received)		
2)	Fixtures and fittings A/c	200	
	Disposal A/c		200
	(being correcting the error		
	of fixtures & fittings.)		
3)	Purchases A/c .. dr	40	
	Cash a/c .		40
	(being correcting the		
	error of Purchases A/c)		

- 1 A narrative mark is awarded if it clearly indicates that an 'error' is being 'corrected'. In this case, the key word 'error' is missing.  
Mark for (a) = 8 out of 9

[9]

## Example Candidate Response – high, continued

## Examiner comments

- (b) Prepare the suspense account. Include the original difference on the trial balance, as a balancing figure.

		Arjun Suspense account			
Date	Details	\$	Date	Details	\$
2020 Jan 31	b/d	200162	2020 Jan 31	Office expense	90
Jan 31	Office expenses	73		Equipment	875
				Equipment repair	575
		1240			1240

[4]

- (c) Complete the following table by placing a tick (✓) in the correct column to indicate how each of the errors would affect Arjun's capital.

The first one has been completed as an example.

Ignore depreciation of non-current assets.

Error number	Increases capital	Decreases capital	No effect on capital
3	✓		
4		✓	
5		✓ <span style="color: red; border: 1px solid red; border-radius: 50%; padding: 2px;">3</span>	
6	✓		
7			✓

[4]

- ② Balance brought down is an incorrect narrative. The figure of \$1077 arises only after a trial balance is produced and a difference arises, therefore, it cannot be brought down from a previous accounting period. The correct words for this narrative are 'difference on trial balance'.  
Mark for (b) = 3 out of 4

- ③ Error five is the incorrect posting of a non-current asset to the equipment repairs account. As equipment is acquired the capital is increased. This is illustrated by applying the accounting equation:  
 $\text{Assets} - \text{Liabilities} = \text{Capital}$   
Mark for (c) = 3 out of 4

## Example Candidate Response – high, continued

## Examiner comments

- (d) State three advantages to Arjun of operating as a sole trader.

1 ... He is his own boss. ..... 4

2 ... Can make own decisions, no one to consult before making plans. .....

3 ... It can keep all the profits. ..... [3]

[Total: 20]

**4** Answers one and two make the same point. Arjun is his own boss and as a sole trader he can make his own decisions with no need to consult anyone else. One mark is awarded for a single point.  
Mark for (d) = 2 out of 3

**Total mark awarded =  
16 out of 20**

## How the candidate could have improved their answer

- (a) There was a need to be precise when describing the reason (the narrative) for making entries into the journal as they formed the basis of the audit trail when accounts were checked for validity and accuracy.
- (b) Any differences that arose upon the production of the trial balance were transferred to a suspense account. Again, it is essential that precise narratives are used to record for audit purposes where the difference has been discovered from within the accounting system. The candidate should have used 'difference on trial balance' as the narrative.
- (c) The application of the accounting equation helped to guide where errors were made and the numerical impact of the movement upon assets, liabilities both short-term and long-term could then be determined.
- (d) Making own decisions was an extension of being his own boss rather than a separate advantage. The financial reporting requirements were less complicated and did not have to be published; this could have been considered as the third advantage point.

## Example Candidate Response – middle

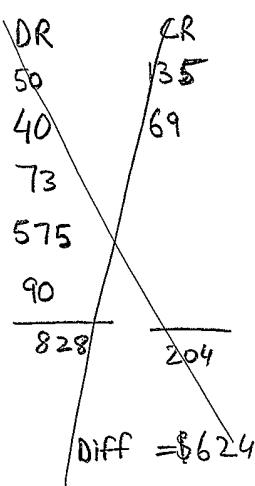
## Examiner comments

- 4 Arjun is a sole trader.

Arjun prepared a trial balance on 31 January 2020. The totals of the debit and credit sides differed. This difference was placed in a suspense account.

Arjun later discovered the following errors.

- 1 The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account.  
~~Commission receivable DR Discount received CR~~
- 2 \$200 received from the sale of fittings (net book value \$150) had been correctly debited but had been credited to the fixtures and fittings account.  
~~Fixtures and fittings DR 200 Fittings CR 20~~
- 3 Cash drawings, \$40, had been correctly debited but had been credited to the purchases account.  
~~Cash CR Suspense DR~~
- 4 The total of the analysis column for cleaning in the petty cash book, \$73, had been transferred to both the cleaning account and the office expenses account.  
~~Office expenses CR Cleaning DR~~
- 5 The purchase of equipment, \$575, had been credited to the equipment repairs account. The bank account had been correctly credited.  
~~Equipment repairs DR Equipment CR Suspense 575~~
- 6 No entries had been made for a cheque payment for office expenses, \$90.  
~~Office expenses DR Bank CR~~
- 7 A cheque, \$69, paid to Simone had been posted to the account of Simon.  
~~Simon CR Simone DR~~



## Example Candidate Response – middle, continued

## Examiner comments

**REQUIRED**

- (a) Prepare journal entries to correct errors 1, 2 and 3.

Narratives are required.

Arjun  
Journal

Error number	Details	Debit \$	Credit \$
1.	Commission Receivable	135	
	Discount Received		135
	Commission Receivable is debited to erroneous effect of the wrong entry.		
2.	F Fixtures and fittings	200	
	Fittings		200
	Fitting have been sold.		
3.)	Suspense	40	
	Bank Cash		40
	Cash has been withdrawn.		

[9]

① The credit entry is incorrect. The key word is 'disposal' linked to fixtures and fittings.

② The narrative accompanying the journals is incorrect, as there is no reference made to the correction of error relating to these transactions.

③ The candidate provides an incorrect narrative.

④ The narrative accompanying the journals is incorrect, as no reference is made to the correction of error relating to these transactions.

Mark for (a) = 5 out of 9

## Example Candidate Response – middle, continued

## Examiner comments

- (b) Prepare the suspense account. Include the original difference on the trial balance, as a balancing figure.

Arjun Suspense account					
Date	Details	\$	Date	Details	\$
5	Balanc (b/d)	624		Balanc (b/d)	624
	Cash	60		Cash	60
	Office expenses	73		Equipment	575
				Equipment transfers	575
				Balanc (c/d)	162
		737			737

[4]

- (c) Complete the following table by placing a tick (✓) in the correct column to indicate how each of the errors would affect Arjun's capital.

The first one has been completed as an example.

Ignore depreciation of non-current assets.

Error number	Increases capital	Decreases capital	No effect on capital
3	✓		
4			✓
5	✓		
6			✓
7	✓		

[4]

- 5 The candidate gives an incorrect narrative as this is not a balance brought down, but the difference arising after the production of the trial balance. Mark for (b) = 2 out of 4

- 6 The candidate correctly identifies only error five. Mark for (c) = 1 out of 4

## Example Candidate Response – middle, continued

## Examiner comments

- (d) State three advantages to Arjun of operating as a sole trader.

1 Sole traders have unlimited liability. 7  
 2 Profits don't have to be shared.  
 3 Only one set of decisions can be made quicker.

[Total: 20]

7 Point one is a major disadvantage of operating as a sole trader.

Mark for (d) = 2 out of 3

**Total mark awarded =  
10 out of 20**

## How the candidate could have improved their answer

- (a) The candidate should have used the correct narrative for error two and error three in the journal. They should have referred to the correction of errors relating to these transactions.
- (b) This type of question relied heavily upon the candidate's knowledge of double entry book-keeping, and the ability to write concise narratives was required. The wrong narratives were used and only two of the entries were correct.
- (c) The errors that would have caused a difference in the trial balance were either single entry, double entries posted as both debits or credits, or entries of unequal amounts. Only errors four and five caused these differences and the ability to identify appropriate transactions would have allowed the suspense account to be eliminated effectively.

Each of the errors identified would have had an impact upon the profit of the business and once this had been identified as an increase or decrease, then the effect upon capital was determined.

- (d) The candidate should have given the third advantage. The first advantage given was actually a disadvantage of operating as a sole trader.

### Example Candidate Response – low

### Examiner comments

- 4 Arjun is a sole trader.

Arjun prepared a trial balance on 31 January 2020. The totals of the debit and credit sides differed. This difference was placed in a suspense account.

Arjun later discovered the following errors.

- 1 The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account.
- 2 \$200 received from the sale of fittings (net book value \$150) had been correctly debited but had been credited to the fixtures and fittings account.
- 3 Cash drawings, \$40, had been correctly debited but had been credited to the purchases account.
- 4 The total of the analysis column for cleaning in the petty cash book, \$73, had been transferred to both the cleaning account and the office expenses account.
- 5 The purchase of equipment, \$575, had been credited to the equipment repairs account. The bank account had been correctly credited.
- 6 No entries had been made for a cheque payment for office expenses, \$90.
- 7 A cheque, \$69, paid to Simone had been posted to the account of Simon.

cash drawing \$40

cash cr  
drawing dr

P →

7

## Example Candidate Response – low, continued

## Examiner comments

## REQUIRED

- (a) Prepare journal entries to correct errors 1, 2 and 3.

Narratives are required.

Arjun  
Journal

Error number	Details	Debit \$	Credit \$
3	Simone Cash	60	
	Simone Purchased		60
5	Equipment	525	
	Purchased equipment	525	
7	Office expenses		75
	no entry		
1	Discount received	35	
	Commission receivable		35
2	Sales	200	
	Pictures & fitting account		200

- 1 The candidate reverses all transactions and omits the relevant narratives that support why the journal entries are being entered.  
Mark for (a) = 0 out of 9

[9]

## Example Candidate Response – low, continued

## **Examiner comments**

- (b) Prepare the suspense account. Include the original difference on the trial balance, as a balancing figure.

[4]

- (c) Complete the following table by placing a tick ( $\checkmark$ ) in the correct column to indicate how each of the errors would affect Arjun's capital.

The first one has been completed as an example.

Ignore depreciation of non-current assets.

Error number	Increases capital	Decreases capital	No effect on capital
3	✓		
4			✓ 4
5		✓ 5	
6	✓		
7			✓

[4]

- 2** The candidate completely omits payment of office expenses from the books of account; therefore, this type of error does not create a difference in the trial balance. In practice, this omission is entered into the ledger accounts and does not appear in the journal or the suspense account.

- 3 Suspense account postings are required where entries posted are of unequal amounts. In this question, error numbers four and five are responsible for the overall difference arising when drawing up the trial balance.

**Mark for (b) = 1 out of 4**

- 4 The candidate's error means that the expense is being charged twice, causing profit to decrease, leading to a reduction in capital.

- 5 This error of crediting equipment repairs means that expenses are reduced. This leads to increased profits and therefore an increase in capital.  
Mark for (c) = 2 out of 4

Example Candidate Response – low, continued	Examiner comments
<p>(d) State three advantages to Arjun of operating as a sole trader.</p> <p>1 ... Profits earned by the business don't need to ..... ..... be shared</p> <p>2 ..... No disagreements while making decisions. .... ..... Can make all decisions.</p> <p>3 ..... Can work according his preference. .... Can ..... 6 ..... decide the working hours. .... [3]</p> <p>[Total: 20]</p>	<p>6 Point number three is a repetition of point two 'can make all decisions'. Therefore, only 1 mark for both points is given. Mark for (d) = 2 out of 3</p> <p><b>Total mark awarded = 5 out of 20</b></p>

## How the candidate could have improved their answer

- (a) The candidate was able to identify the ledger accounts that needed to be adjusted but, unfortunately, the adjustments made in the journal were completely reversed and the impact compounded the existing errors that had been made. It often helps to draw up 'T' accounts as workings and by applying double-entry transactions the entries are more easily identified for writing up the journal. There was also a clear instruction to support journal entries with a narrative that explained the reason for the entry. The opportunity existed for a further 3 marks, irrespective of whether the account narratives were correct; however, all the supporting narratives were omitted from this answer.
- (b) The errors that would have caused differences in the trial balance needed to be identified, such as two debit entries for office expenses and cleaning being made of \$73 (error four) and two credit entries for the purchase of equipment (error five). Once the errors had been identified and entered into the suspense account, the difference that had arisen upon the trial balance could have been determined.
- (c) This required a three-stage thought process to be followed as a result from the error made. Firstly, was there an impact upon profit? If yes, was it an increase or decrease? Finally, the effect upon capital could have been identified as profits belonging to the owner and capital would change accordingly. Both errors four and five needed to have applied the same logical approach to arrive at the correct answer.

## Common mistakes candidates made in this question

- Candidates sometimes identified incorrect accounts when entering up the journal.
- In some cases, candidates omitted or provided inappropriate narratives to support the reasons for making the journal entries.
- Some candidates included entries in the suspense account that did not resolve a difference from the trial balance.
- Incorrect outcomes were deduced from the errors made to profits and ultimately capital.
- Repetition of 'own boss' and complete control of the business as advantages of being a sole trader.

## Question 5

### Example Candidate Response – high

### Examiner comments

- 5 Adit provided the following information.

For the year to 31 January 2020	\$
Profit for the year	27 900
Revenue	186 000
Credit purchases	93 075

At 31 January 2020	\$
Non-current assets at book value	43 700
Inventory	9 340
Trade receivables	14 010
Trade payables	9 435
Bank overdraft	2 240
Bank loan (repayable 2023)	6 000

All goods are sold on credit terms.

**REQUIRED**

- (a) Calculate the following ratios. Show your workings.

profit margin	
workings	answer
$\frac{\text{Net profit}}{\text{Revenue}} \times 100$ $= \frac{27900}{186000} \times 100$ $= 15\%$	15%

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade Payables}}{\text{Credit purchases}} \times 365$ $= \frac{9435}{93075} \times 365$ $= 37$	37 days

## Example Candidate Response – high, continued

## Examiner comments

trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$ $= \frac{14010}{186000} \times 365$	27 days <span style="color: red;">1</span>

liquid ratio	
workings	answer
$\text{Current assets - Inventory : Current liabilities}$ $= 4840 + 14010 - 9340 : 9435 + 2240$ $\Rightarrow 14010 : 11675$	1.2 : 1

[8]

The bank overdraft limit is \$2500.

The trade payables turnover for the year to 31 January 2019 was 35 days.

**REQUIRED**

- (b) Advise Adit whether or not he should delay paying trade payables in order to reduce the bank overdraft. Justify your answer by considering the effect on **both** the bank balance and the trade payables.

Delay paying trade payables may increase Adit's bank balance, which can be used for other purposes, within Adit's business. But, the trade payables may charge interest on amount due, this may increase Adit's bank overdraft as more amount will need to be paid out.

In addition, trade payables may refuse further supplies until the amount due is paid, lowering sales. Hence, Adit shouldn't delay paying trade payables to reduce bank overdraft. [5]

- 1 The workings are correct, but the answer is not rounded up to the nearest day of 28 days. Mark for (a) = 7 out of 8

- 2 'Trade payables may charge interest' is a clear disadvantage of delaying payment to suppliers.

- 3 A second disadvantage of delaying payment to trade payables is the refusal to supply further goods. The candidate gives no significant comment regarding the potential impact on the bank balance. Therefore, no mark is awarded for the recommendation as it stands. Mark for (b) = 2 out of 5

## Example Candidate Response – high, continued

### Examiner comments

- (c) Suggest three other actions which Adit could take to reduce the bank overdraft.

1 Ask debtors (credit customers) to pay more quickly.  
 2 Selling surplus non-current assets.  
 3 Selling surplus inventory. [3]

4

- (d) (i) State two reasons why Adit should produce an annual income statement.

1 To show profit/loss.  
 2 To assess past performance. [2]

5

- (ii) State two reasons why Adit should apply the money measurement principle.

1 To find accurate results, as it suggests that only information that can be expressed by of money can be recorded. [6]  
 2 To analyse the result of a decision, for instance, increasing prices. [7] [2]

4 All three points made by the candidate are well-established methods of reducing a bank overdraft. However, it may be unrealistic to ask credit customers to pay more quickly with no offer of some form of cash discount. Mark for (c) = 3 out of 3

5 Both points provided by the candidate are correct reasons for businesses to produce an annual income statement. Mark for (d)(i) = 2 out of 2

6 The candidate gives a clear reason for applying the principle and it implies there is no element of subjectivity involved.

7 The candidate's point is too vague as it mentions analysing the results of increasing prices. The key words are, 'making comparisons year on year', or 'making comparisons with other businesses'. Mark for (d)(ii) = 1 out of 2

**Total mark awarded =  
15 out of 20**

[Total: 20]

## How the candidate could have improved their answer

- (a) The candidate should have rounded up the trade receivables turnover. There was a specific instruction with the trade receivables turnover ratio to round upwards and this was the accepted rule for this type of ratio, as opposed to applying a strict mathematical rounding to the calculation. With any ratio calculations, it is important to look carefully at the required format for the answer.
- (b) The candidate should have recognised possible problems arising with the bank. Where two possible courses of action are considered, it is necessary to deliver a balanced approach so that the advantages or disadvantages are weighed against one another and any recommendation are supported accordingly.
- (d)(ii) The second point that ought to have been considered related to the importance of removing subjectivity from valuing the resources and liabilities of all businesses. Therefore, the application of the money measurement principle was fundamental to recording all financial transactions.

## Example Candidate Response – middle

## Examiner comments

- 5 Adit provided the following information.

For the year to 31 January 2020

Profit for the year	\$ 27900
Revenue	186000
Credit purchases	93075

At 31 January 2020

Non-current assets at book value	43700
Inventory	9340
Trade receivables	14010
Trade payables	9435
Bank overdraft	2240
Bank loan (repayable 2023)	6000

All goods are sold on credit terms.

**REQUIRED**

- (a) Calculate the following ratios. Show your workings.

profit margin	
workings	answer
$\begin{aligned} \text{profit margin} &= \frac{\text{net profit}}{\text{Revenue}} \times 100 \\ &= \frac{27900}{186000} \times 100 \end{aligned}$	15%.

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\begin{aligned} \text{Trade payables turnover} &= \frac{\text{Trade payables}}{\text{Credit purchases}} \times \frac{365}{1} \\ &= \frac{9435}{93075} \times 365 \end{aligned}$	37 days

## Example Candidate Response – middle, continued

## Examiner comments

trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
= $\frac{\text{trade receivables}}{\text{Credit Sales}} \times 365$ = $\frac{14010}{186,000} \times 365$	28 days

liquid ratio	
workings	answer
= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ = $\frac{23,350}{9,435}$	2.47 : 1 <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">1</span>

[8]

The bank overdraft limit is \$2500.

The trade payables turnover for the year to 31 January 2019 was 35 days.

## REQUIRED

- (b) Advise Adit whether or not he should delay paying trade payables in order to reduce the bank overdraft. Justify your answer by considering the effect on **both** the bank balance and the trade payables.

He should not as delaying trade payables because:-

- 1) Can hamper relations with suppliers
- 2) Cannot get cash discounts
- 3) Might also affect reputation in market 3
- 4) Supplier might deny giving you goods 4
- 5) Can pay overdraft by other means like selling assets etc.

.....  
..... [5]

- 1 The candidate's calculation includes inventory within the current assets and the bank overdraft should be included in the current liabilities.  
Mark for (a) = 6 out of 8

- 2 The recommendation mark is not awarded, as only trade payables points receive marks and there are no correct comments made on the bank balance.

- 3 Duplication of point one, therefore no mark is awarded.

- 4 The candidate gives a correct point. However, as marks are given for points one and two, there is no further mark available.

- 5 This answer by the candidate is not realistic as surplus assets might not be available.  
Mark for (b) = 2 out of 5

## Example Candidate Response – middle, continued

## Examiner comments

- (c) Suggest **three other** actions which Adit could take to reduce the bank overdraft.

1 Could sell ~~unnecessary~~ not useful non-current assets for cash which can be used to pay overdraft  
 2 Can take a long term loan to pay the overdraft  
 3 Could decrease the limit he gives his debtors to pay him

6 [3]

- (d) (i) State **two** reasons why Adit should produce an annual income statement.

1 To calculate the business progress by comparing it with other firms or company's own previous performance  
 2 To calculate company's assets and liabilities at certain dates.

7 [2]

- (ii) State **two** reasons why Adit should apply the money measurement principle.

1 money measurement takes in account the real value in form of money.

8 [2]

2 .....

[2]

[Total: 20]

6 All points are acceptable actions to help reduce the bank overdraft.

Mark for (c) = 3 out of 3

7 The statement of financial position shows the value of assets and liabilities, not the income statement.

Mark for (d)(i) = 1 out of 2

8 The candidate's statement is vague and mentions the 'real value in form of money'; the answer needs to specify that it is understood as a unit of measure, or transactions are recorded in monetary terms.

Mark for (d)(ii) = 0 out of 2

**Total mark awarded =  
12 out of 20**

## How the candidate could have improved their answer

- (a) The calculations should not have included inventory in current assets and the bank overdraft should have been included in the current liabilities.
- (b) This answer required a balanced look at delaying payment to trade payables in order to reduce the bank overdraft. Points made were mainly focused on the impact upon trade payables. More emphasis needed to be placed upon the bank in order to access further marks and to gain a supported recommendation mark.
- (d)(i) This question asked solely for the reasons for producing an income statement. The answer suggested that the candidate assumed the question referred to financial statements which would then have included reference to a statement of financial position.
- (d)(ii) Candidates required a clear understanding of the principle of money measurement. This answer was a restatement of the wording given in the question and lacked clarity of understanding of the principle or any reasons why it was important when any financial accounting records were produced.

**Example Candidate Response – low****Examiner comments**

- 5 Adit provided the following information.

For the year to 31 January 2020	\$	
Profit for the year	27900	
Revenue	186000	
Credit purchases	93075	
At 31 January 2020		
Non-current assets at book value	43700	
Inventory CA	9340	
Trade receivables CA	14010	
Trade payables CL	9435	
Bank overdraft CL	2240	
Bank loan (repayable 2023)	6000	

All goods are sold on credit terms.

**REQUIRED**

- (a) Calculate the following ratios. Show your workings.

profit margin	
workings	answer
$\frac{27900}{186000} \times 100 = 15\%$	15%

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{9435}{93075} \times 365 = 37\text{ days}$	37 days

## Example Candidate Response – low, continued

## Examiner comments

trade receivables turnover (days).	
workings	answer (round up to nearest whole day)
$\frac{14010}{93075} \times 365 = 54.9 \sim 55 \text{ days}$	95 days <span style="color: red;">1</span>

liquid ratio	
workings	answer
Current asset - Inventories; Current liabilities $(14010 - 9340) ; 11675$ 0.4:1	0.4:1 <span style="color: red;">2</span>

[8]

The bank overdraft limit is \$2500.

The trade payables turnover for the year to 31 January 2019 was 35 days.

**REQUIRED**

- (b) Advise Adit whether or not he should delay paying trade payables in order to reduce the bank overdraft. Justify your answer by considering the effect on **both** the bank balance and the trade payables.

Adit should not delay paying to his trade payables because the interest charged <sup>3</sup> could be high which could increase the cost of product. Adit is giving his <sup>4</sup> ad trade payables 2 days later which would increase the amount of bank overdraft. Trade payables turnover is 37 days whereas adit had has to pay in 35 days.

[5]

1 The candidate's calculation is incorrect, as the denominator represents credit purchases instead of revenue.

2 The candidate's calculation is incorrect. The candidate deducts inventory from trade receivables. Mark for (a) = 4 out of 8

3 This is a correct comment for one mark.

4 This is an incorrect statement. The candidate is talking about Adit's trade payables paying two days later, and appears to be confusing this with trade receivables.  
Mark for (b) = 1 out of 5

## Example Candidate Response – low, continued

### Examiner comments

- (c) Suggest **three other** actions which Adit could take to reduce the bank overdraft.

1 Increase Capital

2 Deposit money into bank 5

3 Decrease trade payable period 6

5 This is a repeat of point one, as the increase in capital is paid into the bank in order to reduce the overdraft.

- (d) (i) State **two** reasons why Adit should produce an annual income statement.

1 To calculate profit and loss

2 To calculate 7 its expense during the year

6 Decreasing the trade payable period increases the bank overdraft and this confirms that the candidate is confusing trade payables with trade receivables, as seen in their answer to part (b). Mark for (c) = 1 out of 3

- (ii) State **two** reasons why Adit should apply the money measurement principle.

1 To record all transactions of expenditure in form of cash

2 To check the transactions done by 8 cash

7 The calculation for expenses is carried out in the ledger accounts, not the income statement. The statement reviews the level of expenses and revenues so that management action is taken. Mark for (d)(i) = 1 out of 2

8 This process is referring to the checking of cash, such as petty cash and bank monitoring. The checking of resources in itself is not a reason for applying the money measurement principle. Mark for (d)(ii) = 1 out of 2

**Total mark awarded =  
8 out of 20**

[Total: 20]

## How the candidate could have improved their answer

- (a) The candidate should have used credit purchases as the denominator for calculating trade receivable turnover. In calculating the liquid ratio, the candidate should not have deducted inventory from trade receivables. Key ratios required appropriate knowledge of the formula used in the calculation and it is also critical that terminology such as 'trade payables' and 'trade receivables' are understood. The mixing up of component terms that make up current assets and liabilities lead to the incorrect calculation of ratios and any subsequent interpretative comments drawn from them.
- (c) It was important not to repeat points, such as 'increase capital' and 'deposit extra cash into the bank'. The candidate should have been able to test their answer by asking themselves the question 'where has the cash paid into the bank come from'? Possible answers such as 'to obtain a loan' or 'convert into a partnership' would have resulted in potential further marks.
- (d)(i) The candidate could have mentioned the statement reviews of the level of expenses and revenues so that management could have taken action.
- (d)(ii) The candidate should have given the second valid reason; it would have been easier to make comparisons year on year or with other businesses.

## Common mistakes candidates made in this question

- Some candidates used components incorrectly within the key ratio calculations.
- Candidates often used confusing terminology such as trade payables and receivables.
- Uncertainty of the elements that were included in current assets and current liabilities.
- Many candidates failed to balance answers that related to both options, such as paying trade payables and increasing the bank overdraft. A balanced answer would have supported any recommendation comment that had been made.
- Repeat points were made and answers lacked substance in some cases, such as the reduction in the overdraft could have been achieved by depositing cash into the bank.

Cambridge Assessment International Education  
The Triangle Building, Shaftesbury Road, Cambridge, CB2 8EA, United Kingdom  
t: +44 1223 553554  
e: [info@cambridgeinternational.org](mailto:info@cambridgeinternational.org) [www.cambridgeinternational.org](http://www.cambridgeinternational.org)