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FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned**.

ACCOUNTING

GCE Advanced Level and GCE Advanced Subsidiary Level

Paper 9706/01

Multiple Choice (Core)

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

General comments

4712 candidates took this Paper (June 2002: 4097). The mean score was 16.4 (June 2002: 16.7). The standard deviation was 5.5 (June 2002: 4.8). Although there was a 15% increase in the number of candidates, the mean score was close to that in June 2002. The Paper was more discriminatory than in the previous June.

All items were within the scope of the syllabus.

Item 6 was too easy with a discrimination factor of 0.88.

Items 3 and **10** were too difficult as they fell below the design limit of 0.25.

Comments on specific items

Item 3

Only 15% of candidates selected the correct key. 23% ignored the bad debt of $200 recovered. 35% failed to take account of the provision for doubtful debts brought forward from the previous year, and 24% failed to take account of the provision brought forward and the bad debt recovered.

Item 6

This question tested the understanding of one of the accounting concepts and showed that almost all candidates had remembered the definition. The small number of candidates who chose options **A** – **C** were more concerned with the characteristics of going concern than with the definition. Perhaps they should have read the item more carefully and taken note of the word 'definition' in the stem.

Item 10

Journal entries to correct errors are a particular weakness with candidates. This has previously proved to be the case in written Papers. 21% of responses were correct. 31% selected option **A** and 27% selected **D**. These candidates did not distinguish between a double-entry error and an error in copying a balance onto the trial balance, which is not part of the double entry. There is also a reluctance to recognise that one-sided journal entries are not only possible, but sometimes necessary. 20% of candidates recognised that a one-sided journal entry was required but got it the wrong way round showing that they were not sure about suspense account postings. This topic would benefit from being given more attention by some Centres.

Item 27

This item had a low discrimination index (23%). 31% correctly chose the Key **D**; 30% selected **B** and 31% chose **C**. The statistics suggest that there was much guessing here and doubtless included some of those who selected the key. Under- and over- absorption of overheads is rarely understood by candidates, which indicates that more instruction on this aspect of absorption costing is required.

Paper 9706/02

Structured Questions

General comments

It appears that there is a greater degree of selective teaching than usual, as complete Centres showed strengths and weaknesses in different parts of the syllabus – one Centre's candidates would excel in **Question 1**, another in **Question 2** etc.

Many – possibly the majority – of candidates lost marks through not showing workings. Centres are strongly advised to encourage their candidates to show all workings. Where calculations are shown candidates may be able to earn some marks, even though the final answer is incorrect. Where an incorrect answer is shown without any indication of how that figure was arrived at no marks can be awarded. If the workings or calculations were shown then the candidate might be able to obtain some of the marks allocated to the question.

Comments on specific questions

Question 1

Part **(a)** produced disappointing responses, many of which would have been improved had the candidates shown their workings. There were seven component parts to the sales figure, and it was easily possible to gain six of these marks if workings were shown, even if the final answer was wrong.

Part **(b)** was generally good, with many candidates gaining at least six of the eight marks available.

Part **(c)** showed a lack of understanding of a certain area: reserves – retained profits, share premium, general reserve etc. - are not cash and cannot be used for funding. Nor is depreciation held as cash. These were commonly quoted as possible ways of raising money.

Question 2

The A Level syllabus appeared to have been followed by most Centres, rather than the AS, to judge by the stock exchange ratios, gearing etc. which appeared in response to part **(a)**. These were in fact allowed, but unexpected. Anticipated answers were, for example, gross profit ratio, net profit ratio, ROCE, stock turnover, current ratio, liquid ratio, debtors payment period in days. Where complementary ratios were given, such as cost of sales to sales, followed by gross profit to sales, only one was allowed as they give the same information. Raw numbers were not acceptable as ratios – there must be a % sign, number of days, :1 etc.

Part **(b)** asked for *comment* – this does not mean repeat the answers to **(a)** in different words – some sort of analysis was expected. Ratios are not controls, as many candidates seemed to think, whereby a business sets a number of days for debtors to pay up, rather they are a result of what has happened. A business may aim for a certain ratio, but no more than that. Candidates are expected to comment on the business performance shown through any changes in the ratios.

Part **(c)** answers were many and varied, and it was obvious which Centres had studied the topic.

Question 3

Parts **(a)** and **(b)** were generally well done, most had studied this area of accounting though a small minority of Centres had, apparently, not. Part **(c)** showed which candidates understood the concept of contribution whereby a positive contribution meant, in this instance, that the products were worth retaining.

Paper 9706/03
Multiple Choice (Extension)

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

General comments

3773 candidates took this Paper (June 2002: 4598). The mean score was 16.4 (June 2002: 13.4). This improvement is interesting in the light of the change in the number of entries. The standard deviation was 5.2, the same as in June 2002.

All items were in the scope of the syllabus.

Item 14 was too easy.

Item 11 was too difficult.

Comments on specific items

Item 11

Fixed asset turnover is measured by dividing the net book value of fixed assets into turnover. Capital-intensive industries will tend to have low fixed asset turnover. Retail department stores are, by comparison, not capital-intensive. 26% of candidates chose the key. 36% chose **A** (car manufacturer) and 25% chose **C** (oil company). This suggests that they were not familiar with the *fixed asset turnover* ratio, or that they failed to read the question carefully and seized upon the words 'highest fixed asset'.

Item 14

This item was too easy and the key was selected by 90% of candidates.

Item 19

33% of the responses were correct (Key **D**). 6% chose **A** ($600 000). **A** had a positive discrimination index of 21% compared with 10% for the key. Ideally, distracters should have negative values. Candidates who chose option **A** were concerned only with the variable costs. The contribution of $400 000 that would be made by using the existing machinery for an alternative product would increase the price that could be paid to an alternative supplier to $1 000 000 before a break-even point was reached. Candidates needed to know their marginal costing to answer this item correctly.

Item 22

30% of candidates selected the Key **B** but 63% chose **C**. While the contribution to sales ratio is undoubtedly important, idle resources can prove very damaging and expensive:

- idle resources are wasted resources
- continuing fixed overheads not recovered
- the cost of staff redundancies
- the insecurity felt by other staff not directly affected by the decision to buy-in
- damage to the firms' Goodwill.

This may be an aspect of buying-in that tends to be overlooked in the classroom.

Item 29

30% of candidates think that the pay back method of capital investment determines the efficiency of a process. Other costing and budgetary control techniques are available to assess the efficiency of a process. Pay back is essentially a tool for assessing risk: will the initial outlay be recovered within the expected life of the project?

Paper 9706/04

Problem Solving (Extension)

General comments

A small number of candidates performed well and their Schools and Teachers are to be congratulated on the excellent achievement of their candidates. The candidates themselves are to be congratulated on their high motivation, thorough preparation for the exam, and their general ability.

Many Schools, however, have yet to reach the standard of work required to achieve a good result in this Paper. From the inability of a substantial proportion of candidates to tackle whole or parts of questions it is evident that some Schools are not managing to cover the Syllabus adequately before their candidates take the exam. In particular, **Question 1** indicated that the redemption of shares and debentures, and investment ratios, are weak areas. Similarly, **Question 3** showed that candidates who may be able to prepare a routine cash budget for four or six months were much less successful at preparing a selection of budgets for a single month.

It appears that some candidates felt unable to answer the questions, as they were not familiar with the format. Centres should make use of Past Papers to familiarise their candidates with the type and layout of questions asked at this level. The three questions set in this Paper were all on the Syllabus and were not untypical of those set in previous Papers. There are now several Past Papers available for candidates to use for pre-examination practice. Support for Teachers is available on CIE's website and will shortly be extended by teaching plans for those who feel they need that resource.

Question 1

This embraced Sections E and H of the Syllabus. They were arguably the weakest areas for most candidates.

A small minority of candidates achieved more than half marks for part **(a)**. Many candidates do not appear to understand the redemption of shares and debentures. When debentures are redeemed, a loan is repaid. When shares are redeemed, the shareholders are repaid and the shares are cancelled. The debentures and shares no longer exist and do not continue to be shown in the Balance Sheet. Too many candidates still showed the shares and debentures after redemption.

The attempts to calculate net assets and reserves showed that candidates had a very weak grasp of what was involved.

Very few candidates did any better in part **(b)**. Too many did not even attempt the ratios in this part indicating that there had been little or no preparation on this topic. This was surprising, as questions on these areas have been set in previous Papers. Marks were lost unnecessarily by failure to express the ratios correctly. For example, gearing and dividend yield should be expressed as percentages; 11.43 is not the same as 11.43%. Earnings per share is a monetary amount and must be expressed as $0 496, not 0.496. Candidates should not be allowed to get away with ratios being incorrectly expressed in their work during the course of study. Some candidates do not realise that price/earnings ratio must be calculated as it sounds, and not as earnings/price ratio.

Part **(c)** exposed candidates' inability to comment in any depth on the ratios they had calculated in part **(b)**. Simply repeating the ratios that have been calculated in the previous part adds nothing to the answer. There is little point in calculating ratios if their significance is not understood. Parts **(c)** and **(d)** were answered, sometimes at considerable length, by most candidates. In part **(d)** it was very pleasing to note how many responses referred to the expense of issuing prospectuses for the issue of shares to the public, any limitation that may have been imposed by the authorised capital, and, if Omicron was a private limited company, it could not issue shares to the public anyway. Well done those candidates!

Question 2

This question, from Section D of the Syllabus, was answered better than **Questions 1** and **3**. A high proportion of candidates scored more than half marks on it, and many achieved almost full marks. This was in spite of the requirement to prepare Pie Ltd's Balance Sheet as at 30 April 2002. All adjustments had to be the reverse of those that have to be made when a cash flow statement has to be prepared from two Balance Sheets. Candidates who lost heavily on this question appeared not to have read the requirement carefully enough to notice that the year 2002 was in bold print.

A good number of candidates scored full marks on the fixed asset section of the Balance Sheet and most of the others gained a fair proportion of the marks. Some candidates showed the fixed assets in the Balance Sheet at net book values only, although the Balance Sheet for 2003 given in the question showed the fixed asset section in full detail. The Balance Sheet should have been prepared in similar style and it is not clear why some candidates did not follow it.

Many candidates scored full marks for the current assets, but the main difficulty was the calculation of the bank balance. The liabilities for the ordinary and preference share dividends at 31 December 2002 eluded most candidates.

Many candidates had difficulty with the share capital and reserves. In particular they showed a Revaluation Reserve at 31 December 2002. A few candidates lost marks because they showed debentures as part of the share capital and reserves. Again, it was puzzling why they had departed from the form of Balance Sheet given in the question.

It was especially important to show workings. Incorrect answers could have gained part marks if the workings were partly correct; but if there were no workings, no marks could be given for incorrect answers. It was interesting to observe the increasing use of 'T' accounts as workings.

Question 3

Candidates had to select the correct basis for the preparation of each of the budgets that had to be prepared in part **(a)**. The marking scheme was sufficiently generous to allow candidates to score useful marks if their calculations were made on the wrong bases but were otherwise correct. The surprise was that most candidates responded by preparing Trading Accounts rather than budgets.

Parts **(b)** and **(c)** suffered heavily from candidates' inability to calculate expenditures correctly. The closing cash book balances had to be adequately identified to earn marks. Part **(d)(i)** elicited some good responses, but most candidates appear not to have heard about principle budget factors.

Comments on specific questions

Question 1

(a) Net assets should have been reduced by the amount of cash paid to redeem the shares and debentures including the premiums.

The preference shares were not redeemed out of the proceeds of a new issue and a Capital Redemption Reserve equal to the nominal amount of the shares had to be created from the Profit and Loss Account balance. The premium on the redemption of the shares had also to be charged to Profit and Loss Account. There is no legal requirement to create a provision for the redemption of debentures and the question did not require one to be created. The premium on the redemption of the debentures may legally be debited to Share Premium account.

(b) Either method of calculating gearing at 31 December 2002 was acceptable provided it was expressed as a percentage. Price/earnings ratio was dependent on the response to earnings per share and own figures were accepted for earnings. Importance was attached to the correct form in which the ratios were expressed.

(c) This part was intended to develop part **(b)**, not to repeat it. Marks could only be gained for information that had not already been given in part **(b)**. Comments should have included:

- reasons for the differences in the ratios between 31 December 2002 and 1 January 2003
- how the changes might affect the shareholders in future
- comments on the increase in the share price.

(d) Candidates were expected to consider the following points:

- the relative costs of the three ways of raising the required capital
- the effect of each method on the existing shareholders
- other advantages, disadvantages and risks of each method.

Having considered all aspects of the different methods, candidates should then have recommended which one they considered the most appropriate, with their reasons.

Question 2

Fixed assets

All the information required to calculate these at cost and the provisions for depreciation at 31 December 2002 were given in the question. The best method of calculating the figures for the Balance Sheet was undoubtedly to reconstruct the 'T' accounts.

Current assets and current liabilities could easily be calculated from the information of increases and decreases given for the constituent items in the question. The liabilities for ordinary and preference dividends were best calculated by reconstructing the 'T' accounts.

Capital and reserves

The ordinary share capital had been increased in 2003 by the issue of 50 000 ordinary shares at a premium of $1. 6% preference shares had been redeemed in the year at a premium of $0.15. The share Premium account had to be adjusted for the premiums on both of these transactions. The Revaluation Reserve would not have been in existence at 31 December 2002.

Question 3

(a)(i) The production budget for August was based on the September sales (900 units + 10% for stock).

(ii) The purchases budget was based on the October sales (980 units + 10% for stock).

(iii) The sales budget was based on the August sales.

(b) The cash book balance at the 31 July was based on:

receipts from debtors in the month (based on June sales)
payments to suppliers - May purchases
wages - actual
variable overhead - July production for August
fixed overhead - June production for July

(c) The cash budget for August was based on:

receipts from debtors in the month (based on July sales)
payments to suppliers - June purchases
wages - actual
variable overhead - August production for September
fixed overhead - July production for August

(d)(i) The advantages and uses of budgets: the points that could have been mentioned were:

- formalisation of management plans
- co-ordination of functions within the organisation
- identification and remedying of shortages of resources
- participation by, and commitment of, management
- responsibility accounting
- budgetary control of business.

(ii) A principal budget factor is anything that restricts the level of activity. It may be

- limited demand for the product
- insufficient availability of supplies of goods, services or materials
- non-availability of suitable labour
- limited availability of machine capacity.

Other points which could have been mentioned were:

1. When one principal budget factor is removed, it may be replaced by another.
2. The budget for the principal factor should be prepared before the other budgets.
3. If a principal budget factor first becomes apparent during a budget period, the budget should be revised.
4. The advisability of making the product should be considered.
5. The need to rank products in order of contribution per unit of production to maximise profit.