

Example Candidate Responses Paper 2

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

Cambridge O Level Accounting 7707

For examination from 2020





Version 1

In order to help us develop the highest quality resources, we are undertaking a continuous programme of review; not only to measure the success of our resources but also to highlight areas for improvement and to identify new development needs.

We invite you to complete our survey by visiting the website below. Your comments on the quality and relevance of our resources are very important to us.

www.surveymonkey.co.uk/r/GL6ZNJB

Would you like to become a Cambridge International consultant and help us develop support materials?

Please follow the link below to register your interest.

www.cambridgeinternational.org/cambridge-for/teachers/teacherconsultants/

Copyright © UCLES 2020

Cambridge Assessment International Education is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which itself is a department of the University of Cambridge.

UCLES retains the copyright on all its publications. Registered Centres are permitted to copy material from this booklet for their own internal use. However, we cannot give permission to Centres to photocopy any material that is acknowledged to a third party, even for internal use within a Centre.

Contents

Introduction	4
Question 1	6
Example Candidate Response – high	
Example Candidate Response – middle	
Example Candidate Response – low	
Question 2	
Example Candidate Response – high	
Example Candidate Response – middle	
Example Candidate Response – low	
Question 3	
Example Candidate Response – high	
Example Candidate Response – middle	
Example Candidate Response – low	
Question 4	
Example Candidate Response – high	
Example Candidate Response – middle	
Example Candidate Response – low	
Question 5	
Example Candidate Response – high	
Example Candidate Response – middle	
Example Candidate Response – low	

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.

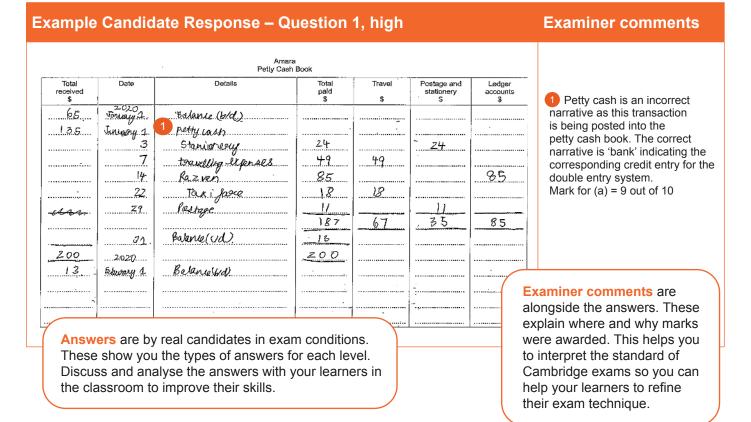
The questions and mark schemes used here are available to download from the School Support Hub. These files are:

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

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.



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

Exa	ample	Can	didate Response – high	Examiner comments
1		on the	is a petty cash book using the imprest system. The imprest amount of \$200 is first day of each month. On 1 January 2020 Amara had a balance of \$65 in her	
	All payme	ents of	less than\\$100are made from petty cash.	
	On 1 Jan	uary 20	020, Amara owed \$85 to Razvan, a credit supplier.	
	Amara pr	ovided	the following information for January 2020.	
	January	١V	The petty cash imprest was restored from the business bank account.	
		3/	Purchased stationery for cash, \$24	
		4	Paid travelling expenses, \$49	
		₩	Paid Razvan the amount outstanding on his account	
		X	Purchased goods on credit from Razvan, \$200 less 10% trade discount	
		22/	Paid taxi fare, \$18	
		2x(Returned goods to Razvan which had been purchased on 19 January, list price \$40	
		29	Paid postage, \$11	
	REQUIR	ED		
	(a) Prep	are.An	nara's petty cash book for the month of January 2020, on the page opposite.	
	Bala	nce the	e petty cash book and bring down the balance on 1 February 2020.	

Example Candidate Response – high, continued

Examiner comments

Total received \$	Dale	Detalls	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	Jourary 2.	Balance (b/d)		·····		
135	Junuphy. 1.	Belance (b/d)			·	
		Staniprezy			24	
		towelling-Upenses				
		Bazven	85			- 85
-		Taxi Jase	18	18		
chan.	<u>Z9</u>	lestype	/			· · · · · · · · · · · · · · · · · · ·
			187	_67	35	85
	J1.	kakenie (Ud)	13			
200			200			
13	Eburary 1	Belance (rd)	·			,
,						i
					~.,	

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

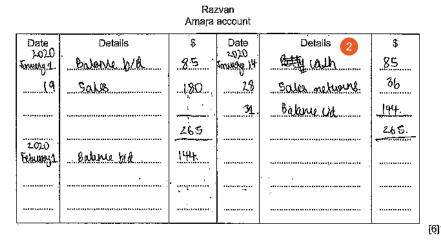
Example Candidate Response – high, continued

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.



2 The correct narrative is 'petty cash', indicating the corresponding debit entry into the double entry system. Mark for (b) = 5 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					
Amara usually pays Razvan by REQUIRED d) State two other methods		ise to pay Razvan froi	3 m her bank accour	[2] nt.	 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
1 direct deboy		****			point two are correct.
2 ineditional	n. 15tand	in order.		[2]	Mark for (d) = 2 out of 2
3) Cheque.	•	4		al: 20]	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.

Examiner comments

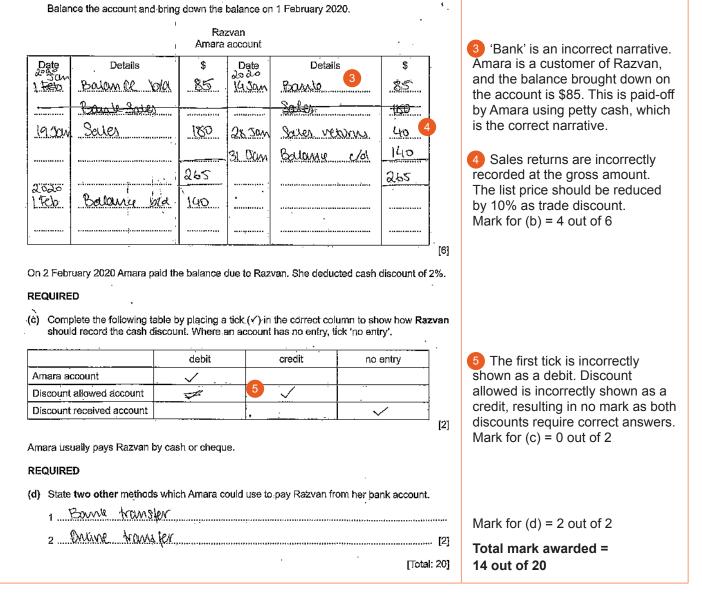
∖mara m			
-	on the	is a petty cash book using the imprest system. The imprest amount of \$200 is first day of each month. On 1 January 2020 Amara had a balance of \$65 in her	
Ali payme	ents of	less than \$100 are made from petty cash.	
On 1 Jan	uary 20	020, Amara owed %85 to Razvan, a credit supplier.	
\mara pr	ovided	the following information for January 2020.	
lanuary	*	The petty cash imprest was restored from the business bank account.	
	3	Purchased stationery for cash, \$24	
	7	Paid travelling expenses, \$49	
	44	Paid Razvan the amount outstanding on his account	
י בי	49	Purchased goods on credit from Razvan, \$200 less 10% trade discount	
	12	Paid taxi fare, \$18	
	28	Returned goods to Razvan which had been purchased on 19 January, list price \$40	
	<i>2</i> 9	Paid postage, \$11	
REQUIR	ED		
(a) Prep	oare Ar	nara's petty cash book for the month of January 2020, on the page opposite.	
Baia	ince th	e petty cash book and bring down the balance on 1 February 2020.	
	REQUIR (a) Prep	All payments of On 1 January 2 Amara provided January 4 3 3 3 3 4 4 4 4 9 22 28 29 REQUIRED (a) Prepare Ar	 All payments of less than \$100 are made from petty cash. All payments of less than \$100 are made from petty cash. On 1 January 2020, Amara owed \$65 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 * Refurned goods to Razvan which had been purchased on 19 January, list price \$40 * Paid postage, \$11

Example Candidate Response – middle, continued

Examiner comments

Total received	Date	Detaile	Total pald \$	Traveł st	Postage and stationery s	Ledger accounts S	
ء (5	1. 30m dazo	Balance brought down					
135	1.Jan 2020	BRANK 1		······			1 The candidate uses 'purchased
	3.Jan Ando	Station Laun Jatimeny Drelain	<u></u>		<u></u>		which is an incorrect narrative and
	1.Jan seve	Traveluing expension	եզ	49			is only used for buying goods for resale. The correct narrative is
	14 Jan 2020	Razvan	85			85	
	22 Janapas	Razvour Tavi fare	18	18			'stationery' on its own.
	29 Janipor	. Pestage	11		11		
	<u>81.Jannasa</u>	Balaince convice depan	<u></u>				
\geq		Totals.		เงา	35	85	
Q00			200				
3	1. Felo 2020	Balance brought down					2 The correct figure is \$13 for th
		V					2 The correct figure is \$13 for th balance brought down.
					<u></u>		Mark for (a) = 8 out of 10

Examiner comments



How the candidate could have improved their answer

Example Candidate Response – middle, continued

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

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

REQUIRED

- (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.

Exa	mple Can	didate Response – Iow	Examiner comments
1		s a petty cash book using the imprest system. The imprest amount of \$200 is first day of each month. On 1 January 2020 Amara had a balance of \$65 in her	
	All payments of	ess than \$100 are made from petty cash.	
		20, Amara owed \$85 to Razvan, a credit supplier.	
	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	
	19	Purchased goods on gredit 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	
	REQUIRED		
	(a) Prepare An	ara'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.	
	REQUIRED	Paid postage, \$11 nara's petty cash book for the month of January 2020, on the page opposite.	

Example Candidate Response – low, continued

		Petty Cash	DODK			
Total received \$	Date	Details	Totaí paid S	Travel \$	Postage end stationery \$	Ledger accounts \$
65	2020 	Balance bld				
135		Bank Camount restanced				
		purchases station	24			
		Travetting enpenses		49	•	
		Razvan	85			85
		laid tari fare 2		18	·	
40 3	28	relignes to Razvan	ļ 			
	29 4	Paid Postage		·		ļ
		- u	187-126	67	35	86
	Jan 31	Balance cld	53			
240			240			
53	2020 .feb.1	Bolance bid				
				· b		

Examiner comments

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'.

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

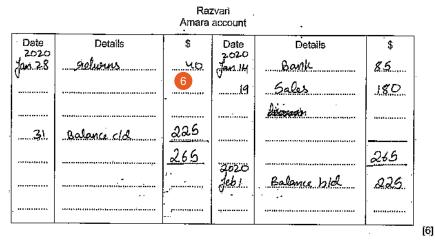
Example Candidate Response – low, continued

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.



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

12

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

ł., ,	debit	- credit	no entry	
Amara account	•			1
Discount allowed-account				1
Discount received account				
				[2]
mara usually pays Razvan by d		<i>,</i>		
mara datany paya Nazvan by (
		÷		
EQUIRED	•	, <u> </u>		
EQUIRED	•	, <u> </u>	m her bank account	
REQUIRED	hich Amara co	, <u> </u>	m her bank account	.
REQUIRED	hich Amara co	, <u> </u>	m her bank account	
REQUIRED d) State two other methods w	hich Amara co	, <u> </u>	m her bank account	

+

[Total: 20]

Mark for (c) = 2 out of 2

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

Examiner comments

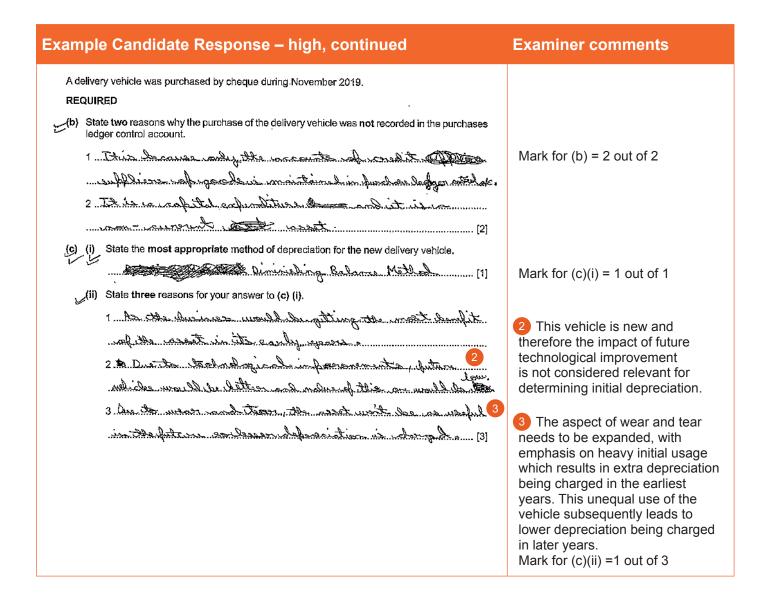
- (a) This candidate needed to be more precise in the narratives entered into the petty cash book. Narratives indicate the corresponding entry into a named ledger account in a double entry system and accuracy is important for tracking and auditing purposes. This candidate stated the transaction rather 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

mple C	Candidate Resp	Examiner comments					
, GHB Limit	ted maintains a full set of	accounting	records a	nd prepares monthly cont	rol accounts	.	
The follow	ving information was provi						
Purchases	s ledger control account b	alance at 1	Novembe	e r ?			
Purchas Purchas Cash pu Commis Cash di Cash di Cheque Sales le Interest Cheque Purchases REQUIRE	November: ses journal ses returns journal urchases ssion receivable iscount received ses paid to trade payables adger contras t charged by trade payable refunds from trade payable s ledger control account b ED are the purchases ledger in	es v bles alance at 3			2019.		
Balar 2019.		ovember 2 GHB L ases ledge	linited	-	n 1 Decen	nber	
Date	Details	\$	Date	Details	\$		
2019		**********	2019				
	Burch and Returns	1160		41 4 4 0			
Nan 30			Norn1.	Balance bild	12.050		The nerratives for both entries
	Open Received	<u>650</u>		Eurohanna	142.00		The narratives for both entries of 'interest' and 'bank' lack
1	1		1	1			
<u>30</u>	Bank	11420	30	beach tout	95	1	accuracy. The narratives indicate
<u>30</u>	Barrelle Salies Ledgeon (C)	11429 280	<u>30</u> <u>3</u> 9	Tatant Charged	.95 .380.	1	accuracy. The narratives indicate the corresponding ledger account
	_					1	accuracy. The narratives indicate
<u>8.0</u> .	Salas Ledger (C)	<u>280</u> 18195 26675			.380. 	1	accuracy. The narratives indicate the corresponding ledger account for tracking in the double entry
<u>8.0</u> .	Salas Ledger (C)	<u> 280</u> 18195		Befunder (Back)	.330. 24675	1	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
<u>80</u> 30	C. as nogher celas	<u>280</u> 18195 26675		Befund Last	.380. 	1	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.
<u>30</u>	<u>Bissingen (C)</u>	<u>280</u> <u>18195</u> 26675		Befunder (Back)	.330. 24675	1	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
<u>30</u>	CD ragbel ellas	<u>280</u> <u>18195</u> <u>26675</u>		Befunds (Back) Balana (Ddd	.380. 24675 13195	1	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.
<u>50</u> <u>30</u>	<u>Bissingen (C)</u>	<u>280</u> <u>18195</u> <u>26675</u>		Befunder (Back)	.330. 24675	1	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.
<u>30</u>	CD ragbel ellas	<u>280</u> <u>18195</u> <u>26675</u>		Befunds (Back) Balana (Ddd	.380. 24675 13195	[9]	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.



-xample oandidate Response – mgn, continued	
The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250000 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. (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. (d) Advise the directors which one advantage and one disadvantage of each option. (d) Advise the directors which one advantage and one disadvantage of each option. (d) Advise the directors which one advantage and one disadvantage of each option. (d) Advise the directors which one advantage and one disadvantage of each option. (d) Advise the directors which one advantage and one disadvantage of each option. (d) Advise the directors which one advantage and one disadvantage of each option. (d) Advise the directors which one advantage and one disadvantage of each option. (d) Advise the directors which one diverties the directors are directors which directors are directors at the directors are directors at the directors at	 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 outra shares may load
At Detter and have graded the source of the for filter and a static of the filter and the second of	 stating that extra shares may lead to the dilution of ownership. One mark is awarded for pointing out that if a long-term loan is opened this leads to increased cost as interest is charged.
[5] [7] [8] [8] [8] [8] [8] [8] [8] [8] [8] [8	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.
	 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

- (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

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	5390
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.

GHB Limited

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

\$

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

Purchases ledger control account Date Details \$ Details Date \$ 2019 I.Noly Purchase return 31 Nou Balance 14 160. 7320 Cash discount 6,50 31 New Purchases 14200 Bank 11420 539.0 Cash 250 Sales 3 Interest charged 95 Redurd 53.0 Balance 13195 eld 29005 27<u>00</u>5 2019 Balance 13195 hild 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.

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

Examiner comments

ample 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.	
ledges confinal accounts	
1 Purchase of goods are only recorded in the purchases. ledges control accounts 2 Purchase of delivery which is the purchase of	Mark for (b) = 2 out of 2
non-current asset and purchase ledger control a/c is creditors at [2]	
(c) (i) State the most appropriate method of depreciation for the new delivery vehicle.	
Roducing listance method. [1]	Mark for (c)(i) =1 out of 1
(ii) State three reasons for your answer to (c) (i).	6 The candidate's answer does
1 Bloog Acre meth The leslance for the velice of	not represent a reason for using
the vehicle is news nit 6	the reducing balance method.
2 Ss each year the depreciation is charge on the hear.	7 The candidate needs to
value not the cost, so it is more appropriate.	give a reason and explain why
3 At last a scarly value is left to makely	depreciation is charged on the n book value rather than cost.
which help is calculating the treasle value. (3) [3]	
	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. \$250000 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 deaperties busines if obtain along term	
loan then it need to pay a fixed note of interest open annun Wherease if the lusiness New ordinary share it need to	One mark is awarded for the point that interest has to be paid on a long-term loan.
pays a stare of profit to the shareholders in the form of directed in which might be more than the interest need to pay the to liank on ban. Hence it should 11	10 One mark is awarded for the point that shareholders are paid a dividend, representing an extra cost in return for issuing extra shares.
ge pra long term linnts loan. [5] [Total: 20]	 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

- (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.

Candidate Response – low GHB Limited maintains a full set of accounting records and prepares monthly control accounts.

The following information was provided for November 2019.

Φ
?
1 4200 -
1160
5390
2110
650
710
17 429-
250
-95
330
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.

¢

Date	Details	\$	Date	Details	\$
			Nev 1	Bal. b/d	<u>12710</u>
	Purchases staturns			Purchases Journal	14200
	Journal	1160 .		Interest charged	95
	Cash discount		······	1	
	sucieval	650	0		
	Bank	11420			
	Sales ledger	ఎనం		1417434344444	*********
2	cheque refunds	330			+d+d += +== d = d = =
	Bal, c/d	13195			+41+1-1-1
,	***********		"		<u></u> .
		27005			27005

1 The candidate uses an incorrect narrative. The correct narrative is 'interest' or 'interest payable'.

Examiner comments

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

idate Response – Iow

Example Candidate Response – low, continued

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 Puschases ledger control account successly repoli only purchases related Delievery vehicle tv. 2. (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 7 not overstate profit and constranticipate

that it will not overstate profit and constranticipal all possible losses. 2 9t applies matching' principle.

3 It estimates the value of the non-current assets in the markets over its useful life [3] in the market,

Examiner comments

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

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

The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250000 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 ordinacy shares will increase
capital and reserves. but if will not carry
3 voting eights and have vasiable fixed rate
of divinded dividend. & long term bank loan
will increase non-unnent liabilities and
will have to repaid before any nepay of
shareholders They causey a fixed state of
Integert. But it will increase non-ussent
lightlies, which of Disectors of GHB limited
should issue ordinary shares.
10
[Total: 20]

Examiner comments

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

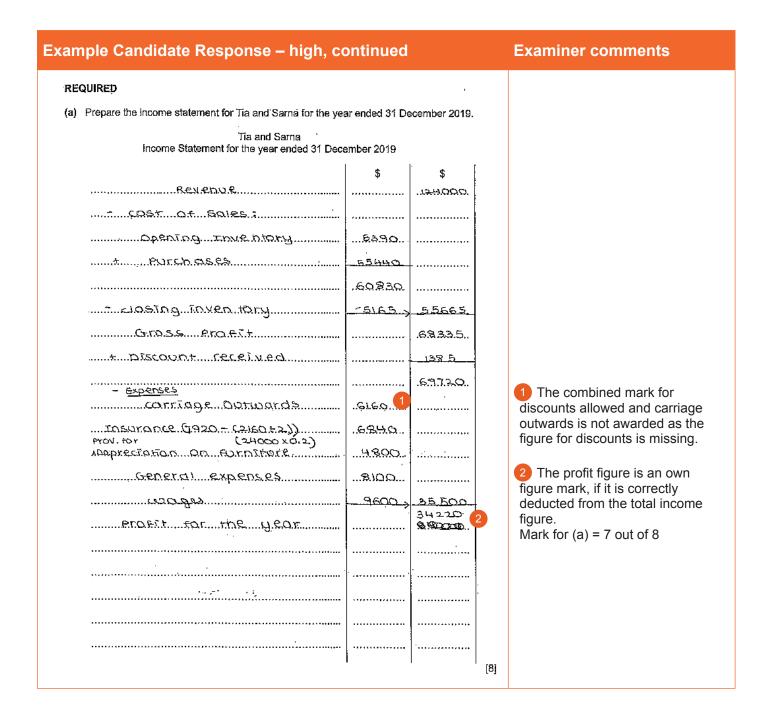
- (a) This candidate understood the correct side of the account for posting debit and credit entries. The narratives should have been specific to what referred to corresponding accounts in the book-keeping system, such as 'interest payable' and 'bank'. It was important to highlight the need to balance 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.

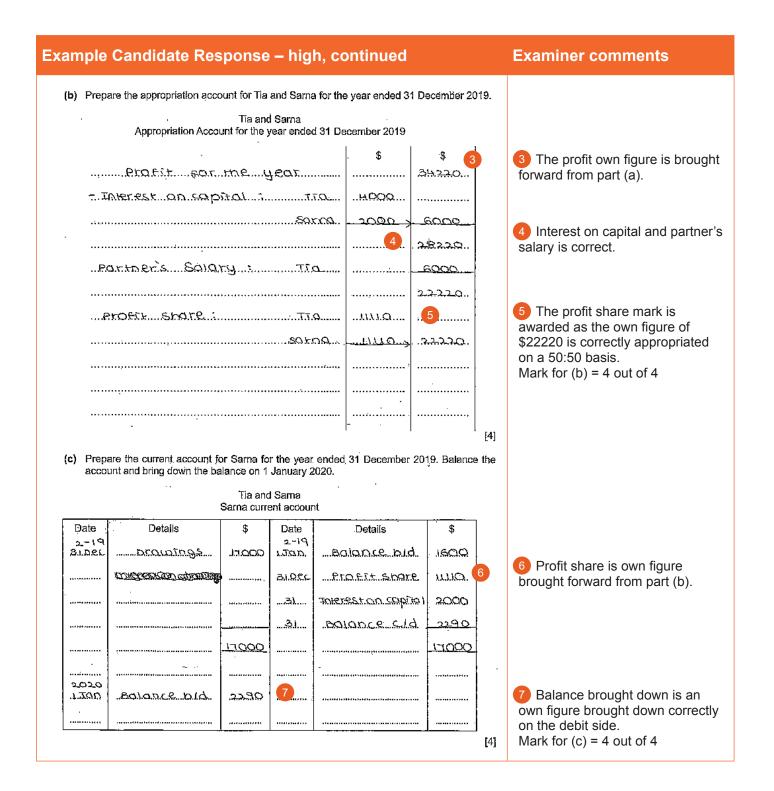
Common mistakes candidates made in this question

- 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

ample Candidate Respor	nse – high		Examiner comments
3 Tia and Sama are partners in a trading	business.		
Their trial balance at 31 December 2019	was as follows:		
	Tia and Sama ce at 31 December	2019	
	debit	credit	
	\$	\$	
> Revenue		124000	
Inventory at 1 January 2019	5390		
·Purchases	55440		
Discount allowed	2400		
 ✓ Discount received 		1 385	
√Carriage outwards	6160		
Insurance	- 7920 - 0	ς τη τη	
General.expenses	8100		
Wages	9600		
r 🕐 - Tráde receivables	11 590		
Trade payables		6051	
c Bank	8136		
Premises at cost	90 000		
Furniture at cost	24 00 <u>0</u>		
Provision for depreciation on furnit	ure	5600	
Capital.accounts	A second second		
Tia		80000	
Sama		40 000	
Current accounts			
Tia		· 2100	
Sama		1600	
Drawings			
Tia	15000		
Sama	17000		
	260736	260736	
Additional information			
이 아이	s valued at \$5165.	A CAR MAR	6.
12 Depreciation on furniture is to be ch	arged at 20% per a	annum using the straight	t-line method.
3 The insurance includes a payment 2020.	of \$2160 for the 12	2 months from 1 July 20)19 to 30 Ju ne
4 The partnership agreement provide: interest on capital of 5% per annual a salary to Tia of \$6000 per annual residual profits and losses to be s	m n		





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. 	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.
LEERS GOST HOL BODS BODS BOLL GOULD CON FOR BUSE SO THE BOSIADS MOLL DOLLOW SUBFICIENT WORKING CORTONS POSIARS CONCENT OF MOLY FOR TID ADD SOMO'S BOSIARS CONCENT ROTTO MOLY FOR SO ITS ITQUIDING MOLY CONSTRUCT THEREFORE, HOLD MOLY [4] SO ITS ITQUIDING HOL HOL TOD SPEN [Total: 20]	 Not being able to access cash in the short term is a clear disadvantage. 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

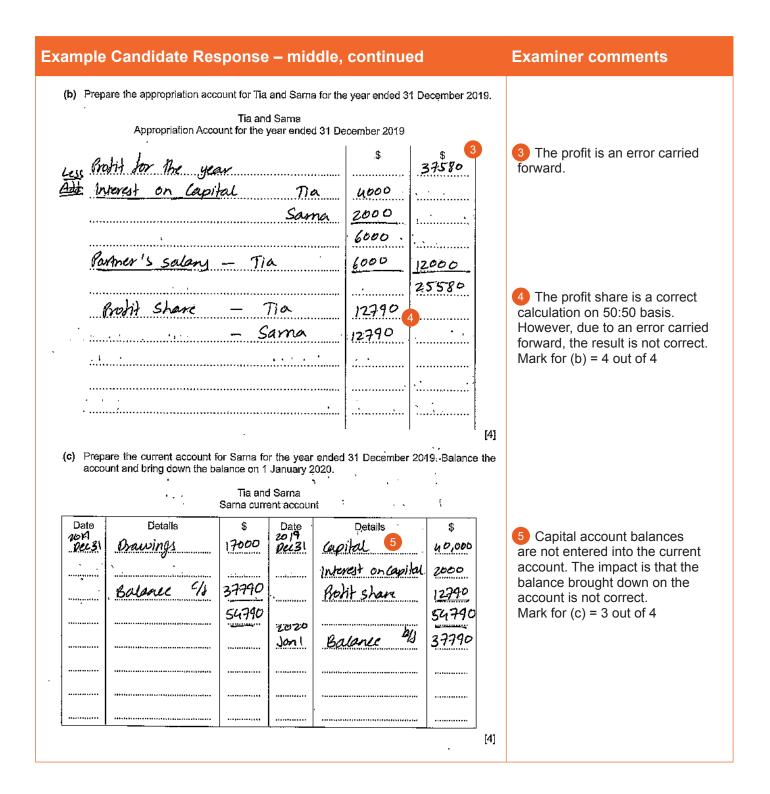
How the candidate could have improved their answer

Example Candidate Response – high, continued

- (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'.

ple Candidate Respon	se – middl	e		Examiner comments
ia and Sama are partners in a trading t	ousiness.			
heir trial balance at 31 December 2019	was as foliows:			
1	ia and Sama			
	e at 31 December	2019		
	debit	credit		
	\$	\$		
Revenue 👘 🌜		124000		
Inventory at 1 January 2019	5390			
Purchases-	55440			
Discount allowed *	2400			
Discount received		1385		
Carriage outwards -	6 160			
Insurance 🤟 .	7 920			
General expenses 🛛 💟	8100			
Wages 🖌	9600			
Trade receivables	11 590			
Trade payables		6051		
Bank	8136			
Premises at cost	90 000			
Furniture at cost	24000			
Provision for depreciation on furnite		5600		
Capital accounts		0000	۲	
Tia		80 000	·	
Sama		40 000		
Current accounts		40000		
Tia		2100		
Sama		1 600		
Drawings				
Tia	15000			
Sama	17 000			
	260736	260736	R	
dditional information			15	
Inventory at 31 December 2019 was	valued at \$5165.)		
Depreciation on furniture is to be ch	arged at 20% per a	annum using the s	traight-line method	
The insurance includes a payment 2020.	DI \$2160 for the 12	2 months from 1 J	uly 2019 to 30 June	3
The partnership agreement provides	for			
interest on capital of 5% per annu	n los			
a salary to Tia of \$6000 per annur	n			
residual profits and losses to be s	viceupa pared			

Example Candidate Response – middle,	continu	ed		Examiner comments
REQUIRED				
(a) Prepare the income statement for Tia and Sarna for the ye	ar ended 31 D	ecember 2019.		
Tia and Sarna Income Statement for the year ended 31 Dec	ember 2019			
Revenue	\$	\$ 124,000		
Less cost of sales				
Opening Inventory	5390			
Purchases	55440	<u>.</u>		
Carriage outwards	6160	1		 Carriage outwards is an expense and does not appear in
	66990			the trading account. This is an unrelated item and means that the
Less closing Inventory	(5165)	61825		gross profit is incorrect. Therefore,
GROSS PROFIT		62175		no mark is awarded.
Add Incomes				
Discount recieved		1385		
······		63560		
Less Expenses				
Discount allowet	2400			
msurance (2160/12×6)	1080	· · · · · · · · · · · · · · · · · · ·		2 The insurance calculation is incorrect; the \$1080 should be
General expenses	8100			deducted from the amount paid during the year.
Wages	9600			Mark for (a) = 4 out of 8
Bor tor depreciation on turniture	4800	25980		
NET PROFIT		37580		
·				
* <u></u>				
			 [8]	



Example Candidate Response – middle, continued	Examiner comments
The and Sama are considering transferring \$7000 from the business bank account to an interest- bearing deposit account. REQUIRED (4) Advise the partners whether or not they should make this transfer. Justify your answer by providing advantages and disadvantages. <u>The and Sama are considering transferring</u> <u>\$7000 Ap an interest - bearing deposit</u> <u>account</u> , which <u>according the resists</u> <u>gead techsion as during emergencies</u> <u>transe brance with be® available to</u> <u>New b maid</u> <u>This and Sama</u> <u>expenses</u> <u>there</u> <u>Tha</u> <u>end Sama</u> [4] [Tota: 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

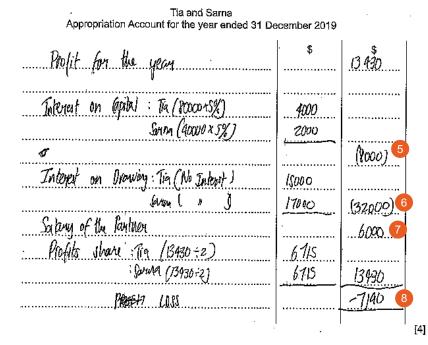
- (a) It was important that items were identified correctly in terms of where they were included within the trading or expenses section of the income statement. Carriage outwards was an expense and did not appear in the trading section. Carriage inwards did appear in the trading section but was not included 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.

mple Candidate Respo	nse – Iow			Examiner comment	S
Tia and Sarna are partners in a trading	business.				
Their trial balance at 31 December 201	9 was as follows:				
Trial Bala	Tia and Sarna nce at 31 December	2019			
	debit	credit			
	\$	\$			
Revenue	Ŧ	124 000			
Inventory at 1 January 2019	5390				
Purchases	55 440				
Discount allowed	2400				
1 Discount received	2100	1385			
Carriage outwards	6160				
	7 920				
General expenses	8100				
El Wages	9600				
Trade receivables	3 500 11 590				
	11090	6051			
Trade payables Bank	8136	0051			
	90,000	•			
Premises at cost			-		
Furniture at cost	24 000	E 600			
€ Provision for depreciation on furn		5600			
Capital accounts		80.000			
Tia		80 000			
Sama		40000			
Current accounts		0.400			
Tia		2100			
Sama		1600			
Drawings	1- 444				
Tia	15000				
Sama	L 17,000				
	260736	260736			
Additional information	·				
1 Inventory at 31 December 2019-w	as valued at \$5165.				
2 Depreciation on furniture is to be	charged at 20% per a	annum using the stra	ight-line method.		
3 The insurance includes a paymen 2020.	· ·				
4 The partnership agreement provid interest on capital of 5% per an a salary to Tia of \$6000 per ani residual profits and losses to be	num Jum				

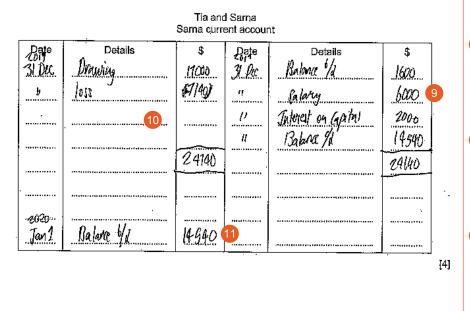
Example Candidate Response – Iow, co	ntinued			Examiner comments
REQUIRED				
(a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.				
Tia and Sarna Income Statement for the year ended 31 December 2019				
Revolue	\$.124000	\$		
		124,000		
Opening Stock	5390			
Androves	65440			
(Josing Stack	(6165)			
COST OF SALES		(<u>55,665)</u> 68335		1 The candidate has not included the narrative for gross profit.
AU: Other Incomes				
Discount Recieved		1315		
Other Expenses				2 Discounts allowed narrative
Carvinage Outwarts		·		and figure are both missing.
Jusurance(7920+2196)	7920	3		3 The candidate provides an
General Expenses	8100			adjustment to insurance which is an incorrect calculation. It is
hige	9600			also being added and treated as
* Dep. to Furnitare (Steendellow-Steen	2.2320	(36290)		an accrual when it is actually a prepayment.
NET PROFIT		13430		
				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
	1		[8]	value of the furniture.
the and a set a star of				Mark for (a) = 4 out of 8
\$ (2400-6600 (x 20%) & 19600+3720 = 3720 - 22320				
= 3720 = 22.520				

Example Candidate Response – low, continued

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



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



Examiner comments

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.

 Final calculation of loss is incorrect due to the inclusion of actual drawings highlighted in note 6.
 Mark for (b) = 1 out of 4

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 – Iow, continued	Examiner comments
Example Candidate Response – low, continued The and Same 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. If would help flum lep 1 Image: I	 12 The candidate does not identify advantages or disadvantages. Mark for (d) = 0 out of 4 Total mark awarded = 7 out of 20

- 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 Can	didate Response – high	Examiner comments
4 Arjun is a sole	trader.	
	a trial balance on 31 January 2020. The totals of the debit and credit sides differed. was placed in a suspense account.	
Arjun later disc	covered the following errors.	
	of the discount received column in the cash book for January, \$135, had been the commission receivable account.	
	ived from the sale of fittings (net book value \$150) had been correctly debited but credited to the fixtures and fittings account.	
Cash drav account.	wings, \$40, had been correctly debited but had been credited to the purchases	
	of the analysis column for cleaning in the petty cash book, \$73, had been transferred a cleaning account and the office expenses account.	
≻ 5 The purch bank acco	ase of equipment, \$575, had been credited to the equipment repairs account. The unt 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.	

REC	UIRED				
(a)	Prepare jou	rnal entries to correct errors 1, 2 and 3.			
	Narratives a	are required.			
		Arjun Journal			
	iError humber	Details -	Debit \$	Credit \$	
	<u>i)</u>	Commun regrevable	135		
		Discount received		(25	
	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	Cheing correctly recording		HIGHBLING	1 A narrative mark is awarded i
		<u>d'account recièved</u>	·		it clearly indicates that an 'error' being 'corrected'. In this case, th
	92)	Fictorics and fillings Alc	200		key word 'error' is missing. Mark for (a) = 8 out of 9
		Disparal Arc		200.	
		(being correcting the error			
		of Fixtures & Atting,)			
	3	Purchaeer Alc dr	40 .		
		Cach alc.		40	
		(being correcting the		*₩~~~	
		error of Prutcharestaics	******	······	
		0.110.0.110.0.110.110.0.000	****		

Example Candidate Response – high, continued

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

6

		Arjur Suspense a			
Date	Details Details	\$ 	Date	Details	\$
590-31 1911-31	office expenses	73 73	2020 39031	Office expand	90
			·	equipment	262.
		······		<u>Eq vipment repair</u>	575
	·	1240	·	*	1240
~~****					
	,	, <u> </u>		· /	

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

(c) Complete the following table by placing a tick (γ') 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	Decreases capital	No effect on capital
3.	4		
4		V	
5	•	V 3	
6	L	4.	
7		·····	
			· · · · · · · · · · · · · · · · · · ·

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: Assets – Liabilities = Capital Mark for (c) = 3 out of 4

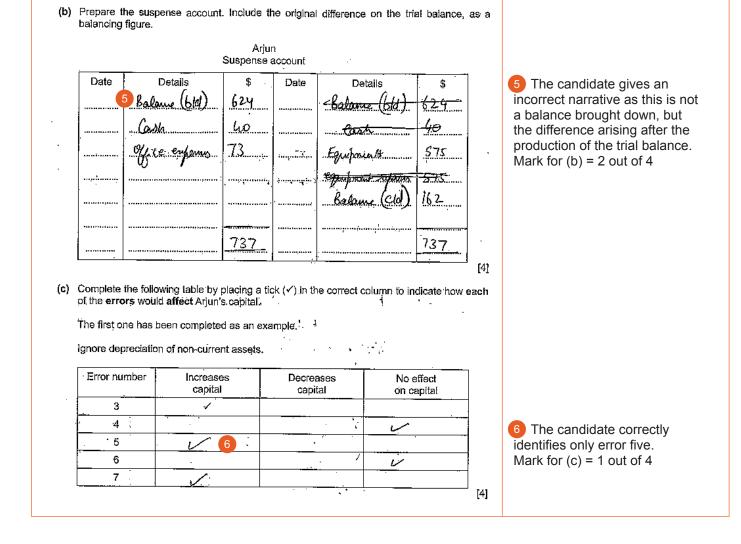
Example Candidate Response – high, continued	Examiner comments
(d) State three advantages to Arjun of operating as a sole trader: 1 <u>Here</u> <u>Here</u> <u>his</u> <u>own</u> <u>boss</u> . 2 <u>Can make own degictions</u> , <u>no one to</u> <u>consult before making plans</u> . 3 <u>t can beep all the profits</u> . [3] [Total: 20]	 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

- (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.

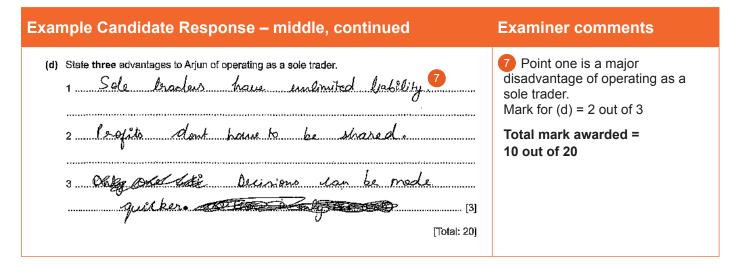
Example Candidate Response – middle	Examiner comments
4 Arjun is a sole trader.	
Arjun prepared a trial balance on 31 January 2020. The totals of the debit and credit sides differed. This difference was placed in a suspense account.	
Arjun later discovered the following errors.	
1 The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account.	
 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.	
 No entries had been made for a cheque payment for office expenses, \$90. A cheque, \$69, paid to Simone had been posted to the account of Simon. 	
DR LR Simon CR Simone DR	
50 /53 40 /69	
73	
575 X	
90	
828 204	
biff = 8624	
li	

ample Ca	andidate Response – middl	le, continu	ueu	Examiner comments
EQUIRED				
a) Prepare jo	urnal entries to correct errors 1, 2 and 3.			
Narratives	are required.			
	Arjun Journal (.			
Error number	Details	Debit \$	Credit \$	
<u>'</u>	Lammission Receivable	135	(35	
	Lommission leuroble is	,		
	Olebited to sumour effect of the	,, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		1 The credit entry is incorrect. The key word is 'disposal' linked
			·····	to fixtures and fittings.
2.	5 Firetures and fittings Eittings		. 200	2 The narrative accompanying the journals is incorrect, as there is no reference made to the
	Fitting barre burn sold.		(1.)	correction of error relating to the transactions.
		·	· · · · · · · · · · · · · · · · · · ·	3 The candidate provides an
3.)	Suspanse <u>3</u> Lurchars Cash	40	40	incorrect narrative.The narrative accompanying
	Daah hang been	······		the journals is incorrect, as no reference is made to the
brdadb braasba	Kullale withdrawn. (4)			 (9) (9) (9) (9) (9) (9) (9) (10) (10)<!--</td-->

Example Candidate Response – middle, continued



https://xtremepape.rs/



- (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 – Iow	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.	
The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account.	
 \$200 received from the sale of fittings (het book value \$150) had been correctly debited but had been credited to the fixtures and fittings account. Cash drawings, \$40, had been correctly debited but had been credited to the purchases account. 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. 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.	
$\mathcal{V}(\mathcal{J})$ A cheque, \$69; paid to Simone had been posted to the account of Simon.	
casdrowing \$40	
Cash cr	
drawing dr	
P 7°	

REQUIRE	ED .			
a) Prepa	are journal entries to correct errors 1, 2 and	13.		
Narra	atives are required.			
	Arjun Journal			
	ror Details . nber	Debit	Credit \$	
3	\$ 3 Simone Cash	69 40		1 The candidate reverses
	Sittion purchases		68 40 1	all transactions and omits the relevant narratives that support
	5	-5595		why the journal entries are bein entered.
	pustchases algoundment	535		Mark for (a) = 0 out of 9
	9 Office expenses		73	
	nazentary	. 154545555455555555	minnen	
1	L Discount diecerined			
	<u>Commission</u>	ања	±3.5	
	L. Sales	200		
	fixtures & Pitting accou	<u>.01 </u>	200	

Example Candidate Response – low, continued

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

		Arju Suspense a			
Date	Details	\$	Date	Details	\$
	Children Children Ch	73		CHE CONTRACT	
31. <u>Jan</u>	Office expenses		121.765	CHICE exportes	<u> </u>
	,950.000 Hurry	••••••			
	▶+++ \ ba b }++	••••••		······	********
)*************		******			
		·····			
		·····	A. S. addam	· · · · · · · · · · · · · · · · · · ·	*******

(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.

1

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	√		1	
4		······.		
· 5		1 ···· (5 ·····		
6	. /			
7				

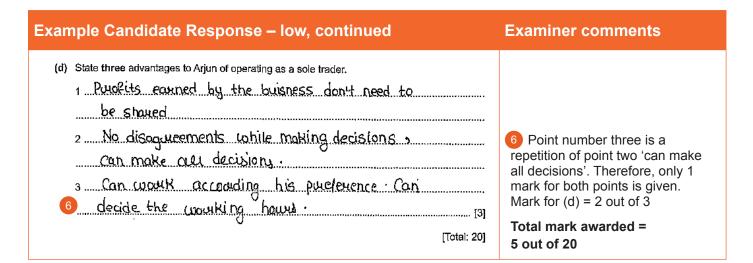
Examiner comments

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



- (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

Exampl	e Candidate Response – high		Examiner comments
5 Adi	t provided the following information.		
P R	the year to 31 January 2020 Profit for the year Revenue Gredit purchases	\$ 27900 186000 93075	
N Ir T B B	31 January 2020 ion-current assets at book value nventory rade receivables rade payables lank overdraft lank loan (repayable 2023)	43 ¹ 700 9340 14010 9435 2240 6000	
	goods are sold on credit terms.		
	QUIRED		
(a)	Calculate the following ratios. Show your workings.	he set as	
	profit margin ¹	· · · · · · · · · · · · · · · · · · ·	
	workings	answer.	
	$\frac{\text{Net plotet}}{\text{Kevenue}} \times 100$ $= \frac{27900}{186000} \times 100$	15%	
	trade payables turnover (days)		
	workings	answer (round up to nearest whole day)	
	Trade Payables x 365 Diedit purchases = 94.35 x 365	37 days	
	= <u>9435</u> X365 93075		
		· · · · · · · · · · · · · · · · · · ·	

Example Candidate Response – high, continued

$\frac{\text{trade receivables turnover (days)}}{\text{workings}} \\ \frac{\text{answer}}{(\text{round up to nearest whole day)}} \\ \frac{\text{Trade receivables}}{\text{trade tsales}} \times 365 \\ \frac{27}{186000} \times 365 \\ \frac{186000}{1} \\ \frac{18000}{1} \\ \frac{18000}{1}$

líquid ratio	
workings	answer
Current assets-Inventory: Current	1.2:1
= 9340+14010-9340:9485+2240	
2 HO10:11675	

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 porrease Adit's bank balance, which can be used for other purposes, within paits business. But, the trade pay ables may morease holits bank overdraft as more amount will need to be paid out. In addition, trade payables may nefwe further supplies with the amount due is paid, busening sales. Hence, Adit shouldn't delay paying trade payables to preduce bank overdraft 15]

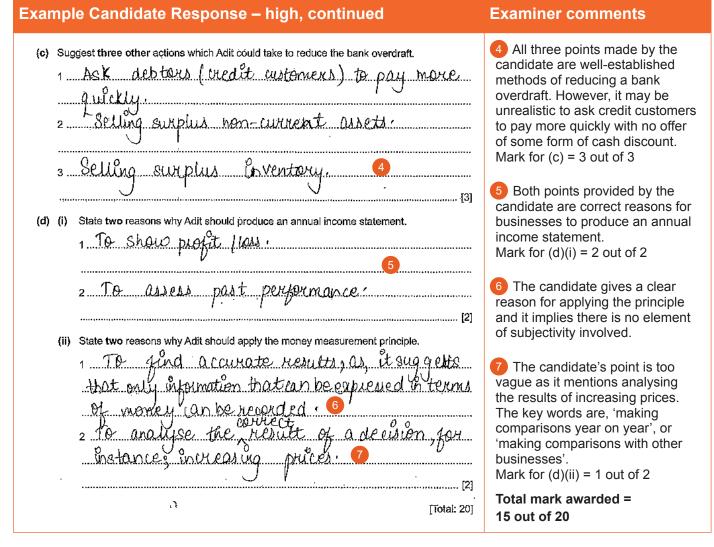
Examiner comments

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.

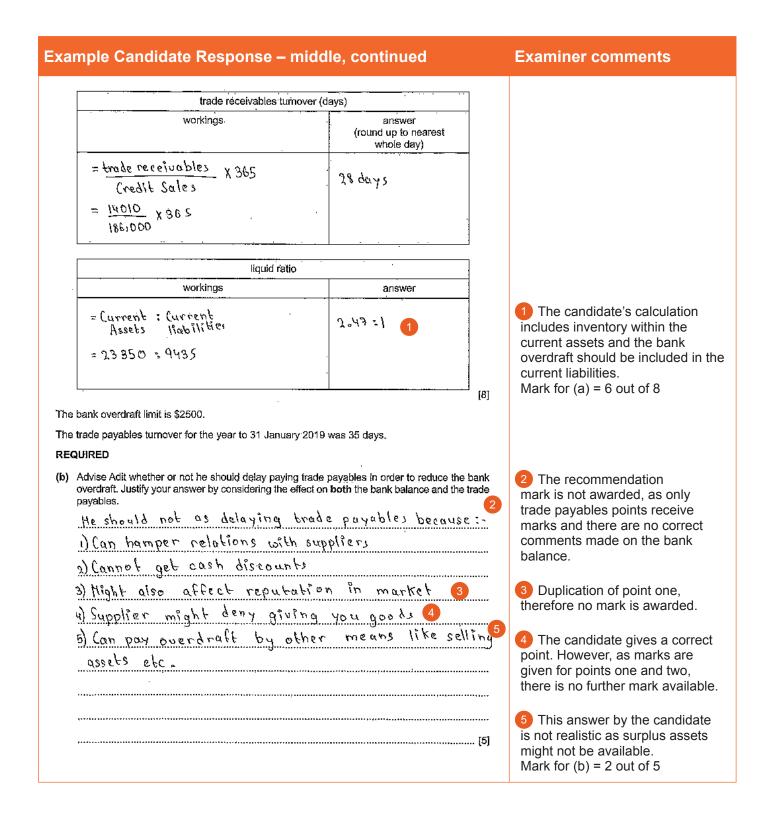
[8]

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



- (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.

Examp	ole Candidate Response – middle		Examiner comments
5 Ad	lit provided the following information.		
	Revenue 1	\$ 27900 86000 93075	
- - - -	Inventory Trade receivables Trade payables Bank overdraft Bank Ioan (repayable 2023)	43700 9340 14010 9435 2240 6000	
	i goods are sold on credit terms.		
(a)	Calculate the following ratios: Show your workings,		
	profit margin	·····	
	workings	answer	
	profit = <u>net profit</u> X 100 Revenue	12.1.	
	= <u>27900</u> × 100 1 86000		
	trade payables turnover (day	/s)	
	workings	answer (round up to nearest whole day)	
	Trade payables = $\frac{\text{Trade payables}}{\text{Credit purchases }} \times \frac{365}{1}$ turnover = $\frac{9435}{93075} \times 365$	37 days	
	Q30+5		



Example Candidate Response – middle, continued	Examiner comments
 (c) Suggest three other actions which Adit could take to reduce the bank overdraft. (c) Guild sell unmercessionery not useful non - current assets for eash which can be used to pay overdraft (an take a long term loan to pay the overdraft (an take a long term loan to pay the overdraft (an take a long term loan to pay the overdraft (c) (i) State two reasons why Adit should produce an annual income statement. 1 To calculate the buisness progress by comparing it with other firms or company's own previous performa 2 To calculate a company's assets and (ii) State two reasons why Adit should apply the money measurement principle. 1 money measurement bakes in account the real walve in form of money. 	 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
[Total: 20]	

- (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 – Iow

5	Adit provided the fo	llowing information.
---	----------------------	----------------------

For the year to 31 January 2020 Profit for the year Revenue Credit purchases	\$ 27 900 186 000 93 075
At 31 January 2020	
Non-current assets at book value	43700
Inventory CA	9340
Trade receivables ^{CA}	14010 '
Trade payables	9435
Bank overdraft C}-	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	
$\frac{27900}{186000} \times 1000 = 15.1.$	15°10	

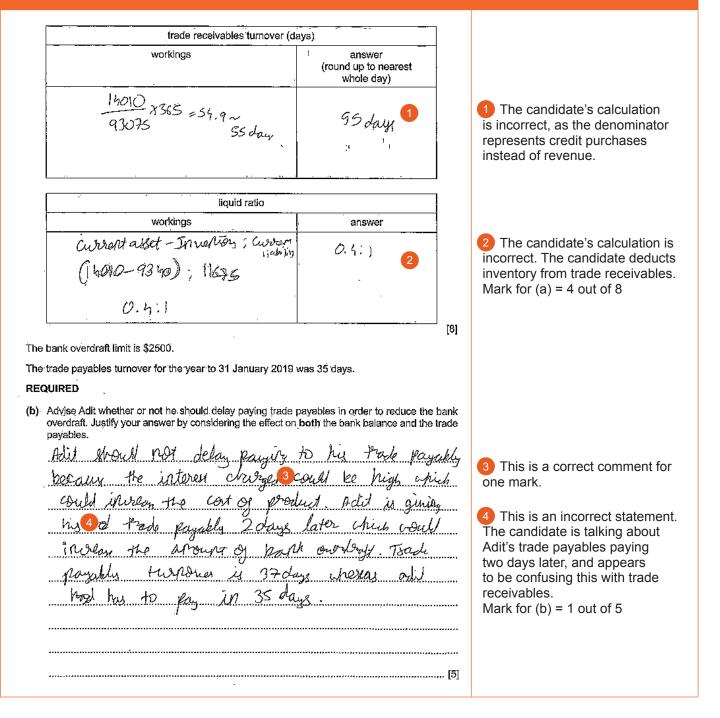
· .

.

<u>.</u>

workings	answer (round up to nearest whole day)
9435 93075 X+00 365 =37duy	37 days

Example Candidate Response – low, continued



Example Candidate Response – Iow, continued	Examiner comments
(c) Suggest three other actions which Adit could take to reduce the bank overdraft. 1. Jancsfast (aftital	5 This is a repeat of point one, as the increase in capital is paid into the bank in order to reduce the overdraft.
2 Reposit vorey into park 5	6 Decreasing the trade payable period increases the bank
3 Decoros trade payophy poriod 6	overdraft and this confirms that the candidate is confusing trade payables with trade receivables, as seen in their answer to part (b).
(d) (i) State two reasons why Adit should produce an annual income statement. 1. To calculate projet and loss	 Mark for (c) = 1 out of 3 7 The calculation for expenses is
2 To calarlar 7 the expenses during the year	carried out in the ledger accounts, not the income statement. The statement reviews the level of expenses and revenues so that
(ii) State two reasons why Adit should apply the money measurement principle. 1. To second all truly action of applylis in Joins.	management action is taken. Mark for (d)(i) = 1 out of 2
oj cass	8 This process is referring to the checking of cash, such as petty cash and bank monitoring. The
2 To Check the transactory done ky 600 Costh 3	checking of resources in itself is not a reason for applying the money measurement principle. Mark for (d)(ii) = 1 out of 2
[2] / [Total: 20]	Total mark awarded = 8 out of 20

- (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 www.cambridgeinternational.org

Copyright $\ensuremath{\mathbb{C}}$ UCLES November 2020