ACCOUNTING

Paper 0452/01
Multiple Choice

Question Number	*Key*	*Question Number*	*Key*
1	**C**	21	**C**
2	**D**	22	**C**
3	**A**	23	**D**
4	**B**	24	**B**
5	**C**	25	**A**
6	**B**	26	**B**
7	**C**	27	**C**
8	**B**	28	**A**
9	**C**	29	**D**
10	**C**	30	**C**
11	**B**	31	**B**
12	**C**	32	**D**
13	**B**	33	**C**
14	**A**	34	**B**
15	**D**	35	**A**
16	**A**	36	**D**
17	**B**	37	**D**
18	**B**	38	**A**
19	**D**	39	**C**
20	**C**	40	**C**

General comments

This was the eleventh sitting of this Paper.

There were 3287 candidates (compared to 3135 in June 2005). The mean mark was 29.5 out of 40 (compared to 26.7 in June 2005). The standard deviation was 7.2 (compared to 7.8 in June 2005).

Judged against accessibility of 60–90% three items were regarded as slightly too easy and 7 items were regarded as too difficult.

All the items were within the Core Syllabus.

Comments on specific items

Item 7

This item was based on the principle of realisation. Only 34% correctly chose the key, C. 40% incorrectly believed that income from a sale was only recognised when the customer actually paid for the goods. It would appear that many candidates do not really understand this accounting principle.

Item 10

53% of candidates correctly selected the key, C. 29% appeared to confuse the purpose of a credit note with that of a debit note and incorrectly selected B.

Item 11

This was expected to be a relatively straightforward item. It was disappointing that only 50% correctly chose the key, B. 26% incorrectly selected A (which was the figure after deduction of both trade and cash discount) and 18% selected C (which was the figure after deduction of cash discount).

Item 12

It was anticipated that the majority of candidates would understand the posting of the discount columns from the cash book to the ledger. 56% correctly selected the key, C. Selection of the other options – A 19%, B15% and D 10% – indicates some degree of guesswork.

Item 18

This item also concerned discount. Discount received had been entered on the wrong side of a trial balance. Candidates were required to select the entry necessary in the suspense account to balance the trial balance. Only 41% correctly chose the key, B. Selection of the other options – A 18%, C 14% and D 26% – indicates a substantial degree of guesswork.

Item 21

55% correctly selected the key, C. Option A was selected by 39%. These candidates incorrectly believed that an opening prepayment should be deducted from the expense paid in the year.

Item 24

62% correctly identified the key as B. It was disappointing to find that 20% believed that the working capital would be affected by treating capital expenditure as revenue expenditure, and that 12% believed that the fixed assets would be overstated.

Item 30

This item was concerned with year-end adjustments to expenses. 63% correctly selected the key, C. The numbers of candidates selecting the other options indicates some degree of uncertainty of the effect of an accrued expense.

Item 32

It was disappointing to find that only 41% were able to correctly identify the key, D. Selection of the other options – A 14%, B 21% and C 23% – indicates a surprising degree of uncertainly of how a loss should be recorded in the books of a partnership.

IGCSE ACCOUNTING

Paper 0452/02

Paper 2

General comments

Candidates' performance varied widely on each of the individual questions in this paper and some significant weaknesses became apparent. The overall performance was satisfactory and there were some strong scripts but Centres need to address the specific areas of weakness.

Most of the short questions in **Question 1** were well answered but some specific parts gave difficulty to many candidates, and particularly where they were asked to explain and develop an initial point. **Question 2(a)** was poorly answered and candidates' performance on part **(b)** suffered from a lack of attention to detail. **Question 3(a)** and **(b)** were very well attempted with many candidates gaining almost full marks, but answers to part **(c)** varied. **Question 4** was very poorly answered and in many cases candidates did not seem to have understood what was required by the question at all. **Question 5** was very well answered and many candidates did gain all the available marks for this question.

Most candidates completed all the questions and there did not seem to be evidence of time pressure. A significant number of candidates made alterations to their original answers in the answer booklet, not always correctly, and the quality of layout and presentation was not good.

Comments on specific questions

Question 1

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus and was quite well answered although difficulties were found with **Questions (b)**, **(h)** and **(i)**.

(a) Many candidates knew that discount allowed and discount received should be recorded in the cash book but a surprising number answered with the general journal.

(b) The accounting principle applied when adjusting for a prepaid expense is the matching, or accruals, principle.

(c) The provision for depreciation is shown in the fixed assets or tangible assets section of the balance sheet. Just the assets section is not enough.

(d) An error of omission is where a transaction is entirely omitted or left out of the accounting records, as many candidates correctly answered.

(e) Many candidates did well on this question, but some thought interest on a bank deposit was an expense. The correct answers are shown in the table:

	Income	Expense
Discount received	√	
Carriage outwards		√
Interest on bank deposit	√	
Bad debts written off		√

(f) Items shown in a partnership Appropriation Account would be partners' salaries, inte[illegible] or interest on drawings. Some candidates included interest on loans, but this would b[illegible] the Profit and Loss Account; others included drawings, but this would be shown in the [illegible] current accounts.

(g) Working capital is the capital required for the day-to-day running of the business, and is calculated as current assets less current liabilities.

(h) (i) Frank would need to draw \$200 - \$65 = \$135 to restore his balance. Many other amounts were offered, varying from \$10 to \$200, showing that many candidates do not fully understand the principles of the interest system.

(ii) Reasons for the discrepancy would include errors, lost or missing vouchers, cash taken for personal items, or cash taken by mistake or intentionally.

(i) (i) The quick ratio is found as current assets – stock/current liabilities. Some candidates became confused between profitability ratios and liquidity ratios and some wrongly suggested the quick ratio was so called because it was quick to calculate.

(ii) The quick ratio shows whether the business has sufficient liquid assets to meet its current liabilities, is a measure of the business liquidity and may be used to make comparisons with other businesses. Again many candidates confused liquidity with profitability but some good answers were offered.

Question 2

This question was in two parts: the first part required the opening journal entry to record the initial transactions when starting a business, and the second part required writing up the petty cash book for the first month of the new business, and showing the adjustments needed by the interest system at the end of the month.

Neither part was well done. In part **(a)**, few candidates showed the credit entry in the journal for the capital account, and many became confused between the petty cash, the amount deposited at the bank, and the loan. In part **(b)**, many candidates correctly showed the individual items of expenditure, although there was a lack of attention to detail in writing up the petty cash book. Few, however, showed the correct opening position, which was a cash entry, not a balance brought down; correctly balanced the book; brought down the balance and showed the amount transferred from the bank.

(a) The correct journal entry to record the opening balances is as follows:

Loretti - Journal

	\$	\$
Office furniture	1 500	
Stock (or purchases)	12 000	
Bank (made up of \$2 300 + \$3 000)	5 300	
Cash	200	
Loan – Hassan		3 000
Capital – Loretti		16 000
	19 000	19 000

The answer to part **(b)** is set out on the next page

Loretti – Petty Cash Book

Date April	Details	Total Received $	Date April	Details	Total Paid $	Stationery $	Refreshments $	Cleaning $	Tra[illegible] $
1	Capital or cash	200.00	3	Stationery	35.00	35.00			
			8	Refreshments	40.00		40.00		
			13	Cleaning	50.00			50.00	
			20	Travelling	20.00				20.00
					145.00	35.00	40.00	50.00	20.00
			30	Balance c/d	55.00				
		200.00			200.00				
May 1	Balance b/d	55.00							
1	Bank	145.00							

Question 3

This question required candidates in part **(a)** to prepare the trader's Trial balance from a list balances, and then in part **(b)** to prepare the Trading Account for the year. Part **(c)** required the calc of the gross profit percentage, and then a second calculation of the gross profit percentage on assumption there were no sales returns.

Part **(a)** was answered well, and the majority of candidates prepared a Trial Balance which balanced and did not contain a Suspense account. Candidates who made errors sometimes included a Suspense account in order to achieve a balanced Trial Balance, but a few became confused and did not complete the Trial Balance at all. There was some confusion over the treatment of the Provision for Depreciation, and whether drawings were a debit or a credit item.

The correct answer is:

Hilota
Trial Balance at 31 March 2006

	Dr $	Cr $
Fixed assets	22 000	
Provision for depreciation		9 300
Stock at 1 April 2005	3 200	
Balance at Bank	1 550	
Sales		56 500
Sales returns	500	
Purchases	34 200	
Carriage outwards	950	
Rent	4 000	
Wages	7 200	
General expenses	2 600	
Capital		20 000
Drawings	9 600	
Totals	85 800	85 800

Part **(b)** was answered well by those who had correctly answered part **(a)**. Common errors were to reverse the stocks at 1 April 2005 and 31 March 2006, to net off sales returns, and to include carriage outwards in the Trading account. A surprising number of candidates prepared a full Profit and Loss account, which was not required, possibly because the information was available and they felt it should be used.

The correct Trading account was :

Hilota
Trading Account for the year ended 31 March 2006

		$
Sales		56 500
Less Sales returns		500
Opening stock	3 200	
Purchases	34 200	
	37 400	
less closing stock	3 800	
Cost of goods sold		33 600
Gross profit		22 400

Part (c)(i) required candidates to calculate the gross profit percentage for the year and the question stated that the answer should be given to two decimal places. Although many candidates correctly calculated the gross profit percentage, many showed it as a number without any decimal places, or showed just one decimal place, or showed the answer as a ratio.

The correct answer was:

Gross profit percentage = Gross profit/net sales x 100 %

= 22 400/56 000 x 100 %

= 40.00%

Part **(c)(ii)** asked candidates to calculate the revised gross profit percentage on the basis that Hilota had no sales returns for the period. Again the answer was requested to two decimal places.

This required candidates to use a revised gross profit and also a revised figure for sales, and to revise the calculation done for **(c)(i)** accordingly. Many candidates correctly recognised they had to adjust the gross profit figure but very many fewer correctly adjusted the sales figure.

The revised gross profit percentage was:

= (Gross profit + sales returns)/Sales x 100 %

= 22 900/56 500 x 100 %

= 40.53%

Question 4

This question was on the topic of the valuation of stock which, although new, was in the syllabus and is an important subject for the correct preparation of accounts. The question was not answered well, with many candidates appearing not even to recognise the basis of the principles of stock valuation, and many other candidates appearing to think the question was concerned with calculating the profit on the sale of stock, and not just the valuation of the stock itself at a Balance sheet date.

Candidates are reminded to read the question carefully. Information provided is always relevant but may not be required to be included in an answer. For example, where the selling price of stock is given, and this exceeds the cost, the value of stock in the Balance Sheet will be the cost, and the selling price need not be used or shown in the answer.

Candidates should be aware that the principles and practice of stock valuation is an important topic.

Part **(a)** required candidates to complete a sentence setting out the basis of stock valuation. The correct sentence should read:

“Stock is valued at the **lower** of **cost** and **net realisable value**”

Many candidates became very confused in answering this part and gave answers saying that stock should be valued at the beginning and end of the period, or at other times, and on many different bases. The above statement is very important and should be known by all candidates.

Part **(b)** asked candidates to compute the value of stock to be shown in Rudi’s Balance sheet from information about three different engineering parts. The quantities, costs and selling prices were given and one part had been delivered in three consignments and carriage inwards had been charged. All candidates had to do was for each of the three parts to calculate the quantity of parts at the lower of cost or their net realisable value, using the selling price for this information.

Many candidates showed two separate valuations, at cost and at selling price, but did not show which should be used. Others calculated the profit or loss on sale of the parts, and showed this as a stock valuation. Many candidates were clearly confused by the answer not being in a standard accounting format, such as a Profit and Loss account or a Balance Sheet. Most omitted any adjustment for the carriage inwards, but some deducted it instead of adding it to the stock valuation. Other common errors were to aggregate the part quantities, the costs and selling prices, or to add them to each other, and in some cases to show a negative stock value for part B017 as its net realisable value was less than cost.

Candidates should be aware of the basic principles of accounts preparation, and that stock is an asset and therefore always a positive amount.

The correct calculation is:

Rudi – stock valuation at 30 April 2006

Part A005:	250 units @ $1.30 per unit = (selling price $1.95 is higher)	325.00
Part B017:	600 units @ $1.80 per unit = (cost is $2.00, so use net realizable value)	1,080.00
Part C060	150 units @ $2.50 per unit = (selling price $3.50 is higher)	375.00
	add: carriage inwards 3 x $25.00 =	75.00
		450.00
Total value of stock		1,855.00

Part **(c)** asked candidates to state the accounting principle which they had applied in part **(b)**. The correct answer was prudence although those who answered with conservatism or a similar explanation were awarded the marks. Many candidates incorrectly thought the principle of matching was relevant.

Question 5

Part **(a)** of this question required candidates to prepare a Balance Sheet from a summary trial balance and was well answered. Candidates prepared their Balance sheets in a variety of layouts, including vertical and horizontal, and in different ways even within the same layout, but all candidates who prepared a Balance Sheet which balanced and showed the different types of assets and liabilities earned the available marks. Some common errors were not to show the net book value of the fixed assets, or not to show the cost and provision for depreciation figures as well as the net book value, not to show a figure for net current assets (or working capital) and therefore to show current liabilities as part of capital employed.

Using the vertical layout, the answer should appear:

Rajit
Balance Sheet at 31 December 2005

	Cost	Provision for depreciation	Net book value
	$	$	$
Fixed assets	62 500	12 500	50 000
Current assets		47 000	
Less current liabilities		19 000	
Net current assets (working capital)		28 000	
			78 000
Financed by:			
Capital at 1 January 2005			74 000
Profit for the year			13 000
			87 000
less: drawings			9 000
			78 000

In part **(b)** candidates were required to calculate Rajit's return on capital employed. This was a straightforward application of a formula and candidates were instructed to use the capital at 1 January 2005 which was a figure given in part **(a)** of the question. The question was well answered on the whole although again candidates did not give their answer to two decimal places, a significant number of candidates used capital at 31 December 2005 or an average of the capital for the year, and some incorrectly used drawings instead of profit.

The correct answer was:

Return on capital employed = profit/capital at 1 January 2005
= 13 000/74 000
= 17.57%

ACCOUNTING

Paper 0452/03
Paper 3

General comments

This structured examination paper was designed to discriminate between candidates obtaining Grades A to C. The syllabus recommends that only those candidates who have studied the Extended Curriculum and who are expected to achieve at least a Grade C should be entered for this paper.

The questions were all compulsory and were set mainly on the Extended Curriculum topics. The underlying theme of the paper was understanding of the subject rather than what could be learnt by rote. Some of the marks were relatively easy to earn: other marks could only be earned by those candidates who were able to demonstrate a greater degree of knowledge and understanding.

Once again, it was pleasing that many candidates were able to earn high marks as their work showed a high degree of competence. Some candidates would have benefited from further study before attempting a paper of this level.

It is important that candidates read each question carefully before attempting an answer. The answers to some of the theory questions were factually correct but did not answer the question being asked and therefore could not be awarded marks.

Many candidates lost marks through lack of attention to detail. Examples of this were found in ledger accounts where entries were undated or had inappropriate descriptions and where balances were not always brought down. Using abbreviations such as “bbd” or “ob” are **not** appropriate descriptions for a balance brought down. Similarly, “os”, “ci” and “cs” are **not** appropriate descriptions for opening stock, carriage inwards and closing stock.

Candidates are reminded that it is important to show calculations. An incorrect answer to a numerical calculation cannot be awarded any marks where no calculations are shown. If a candidate shows how the figure has been calculated, it may be possible to earn some of the available marks.

Comments on specific questions

Question 1

This involved writing up a three column cash book, preparing a calculation of the balance on the bank statement and answering related theory questions.

(a) Using given data, candidates were required to write up the three column cash book of a trader. It was expected that this would be an easy question for the majority of candidates and it was very disappointing to find that many candidates were only able to achieve moderate marks.

Most candidates correctly entered the dishonoured cheque on the credit side, but failed to record the name of the account where the double entry would be made – simply writing “dishonoured cheque” in the details column. The calculation of the cash discount in the transactions on 10 and 24 April also caused some problems. The payment for a new motor vehicle and repairs to existing vehicle was frequently entered as one item: the repairs should have been shown separately to the motor vehicle as they would appear in different accounts in the ledger.

The contra entry on 30 April was often incorrect. Some candidates used incorrect descriptions, and others used incorrect figures. The difference between the total of the debit cash column and the total of the credit cash column indicated the total cash available. The whole of this amount less $100 had to be paid into the bank. The balance on the cash was, therefore, $100.

It was disappointing to find a number of candidates showing an “overdrawn” balance [illegible] column: candidates should know that this is not possible.

(b) Candidates were required to explain why items are recorded on the opposite side of the cash book to that on which they appear on the bank statement. Only a minority of candidates were able to explain that the bank statement is a copy of the account of the business as it appears in the books of the bank (recorded from the bank’s viewpoint) and the bank account in the cash book is prepared from the viewpoint of the business.

(c) A calculation of the balance appearing on the bank statement was required. It was very disappointing that only a few candidates earned full marks on this question.

Most did use the bank balance shown in the cash book, but some put the total of the bank columns, the opening bank balance, or even the cash balance. Those candidates who selected the correct figure in the cash book often treated the overdraft as a positive balance in this section of the question. Adjustments were required for the cheque not presented (the amount paid to Salma Abbas on 10 April) and the amount not yet credited (the cash paid into the bank on 30 April). These were often treated incorrectly.

(d) Candidates were required to state the amount of the bank balance to be shown in the trader’s balance sheet and whether it would be an asset or a liability. It was expected that candidates would refer to their cash book in **(a)** and select the closing bank balance. This should have been an overdrawn balance of $1363 which would appear as a liability. Some candidates failed to answer the question correctly and simply put “asset” or “liability”. A significant number of candidates incorrectly selected the bank balance shown on the bank statement (from their calculation in **(c)**. Candidates should be aware that only balances appearing in the books of the trader will appear in the trader’s balance sheet.

Question 2

This question was on the topic of purchases ledger control accounts and the payment period for creditors.

(a) Using given data, candidates were required to prepare a purchases ledger control account. It was pleasing to find the majority of candidates gaining high marks on this question.

Common errors included listing cash purchases on the credit of the account and either omitting the contra item or entering it on the credit instead of the debit of the account. Dates were often omitted.

(b) Two reasons why it is possible to have a debit balance on a purchases ledger control account were required. Many correctly listed over-payment of a creditor’s account, prepayment for goods, and goods returned after payment was made. Some candidates incorrectly stated that a debit balance could occur when goods were returned or when an account in the sales ledger was offset against an account in the purchases ledger.

(c) Few candidates could explain why a purchases ledger control account should not be completed from information taken from the purchases ledger. Some candidates simply defined a control account. Those who did offer comments regarding accuracy and errors gave very general answers which failed to answer the question. If there is an error in the purchases ledger it will not be revealed by a control account prepared from the individual accounts in that ledger.

(d) Candidates were required to calculate the payment period for creditors. It was pleasing to find many wholly correct answers to this question. An answer in days, weeks or months was acceptable. Marks were lost where candidates failed to specify what their answer represented. A number such as “31” is meaningless in this context.

(e) Using their answer to **(d)** and the given data, candidates were required to state whether creditors would be satisfied with this payment period. Most candidates gave an appropriate answer in relation to their answer to **(d)**.

Question 3

Candidates were required to prepare an income and expenditure account and a balance sheet o
trading organisation and to answer a related theory question.

(a) Using given data, candidates were required to prepare an income and expenditure account. Horizontal or vertical format were equally acceptable. There were some good answers, but many answers were flawed. Common errors were –

including proceeds from the sale of the old vehicle as income
including the cost of the new vehicle as expenditure
failing to "net" the entrance fees for the competition and the cost of competition prizes
omitting the loss on the sale of the old vehicle
omitting the depreciation on the new vehicle

The treatment of the opening accruals of rent and subscriptions caused some problems. Some candidates lost marks by including incorrect figures for subscriptions and rent and failing to show calculations.

It was very disappointing that a significant number of those candidates who opted to use the horizontal format presented the account completely reversed with the income on the debit side and the expenditure on the credit side.

(b) A balance sheet of a non-trading organisation, in either horizontal or vertical format, was required. Once again, some candidates prepared acceptable answers while others produced very poor attempts.

Only a few candidates correctly calculated the opening accumulated fund from the list of assets and liabilities in 1 February 2005. Many simply put in a balancing figure to make the balance sheet total agree. The closing bank balance also caused some problems. Many candidates listed the opening bank balance as an asset. The closing bank balance should have been calculated using the opening balance plus receipts during the year less payments during the year.

Other common errors were including the motor vehicle which was sold during the year and including the opening accruals for subscriptions and rent.

(c) Two reasons for the difference between the bank balance and the surplus (or deficit) in the income and expenditure account were required.

The responses to this question were generally very disappointing. Many candidates appeared to link this question with **Question 1 (c)** and discussed cheques not presented, cheques not credited, bank charges not entered in the cash book and so on. Other candidates stated that errors must have occurred in the preparation of one or more of the financial statements.

Acceptable responses included explanations of the following –

the receipts and payments account shows total money paid and received
the income and expenditure account includes non-monetary items such as depreciation
the income and expenditure account includes adjustments for accruals and prepayments
the income and expenditure account includes only revenue items

Question 4

This question involved writing up two sales ledger accounts, answering theory questions re... provisions for doubtful debts, calculating the debtors collection period and answering a related t... question.

(a) Candidates were presented with a list of transactions relating to two debtors and were required to write up the appropriate sales ledger accounts. Both traditional "T" accounts and three column running balance accounts were acceptable.

Many candidates gained good marks on Wan Tan's account. A few appeared to misunderstand the data given for 17 July and entered a payment and discount totalling either $320 or $1090. The payment and discount should have been in settlement of the amount due on 1 April which amounted to $880.

Carol Lee's account caused some problems. It was very disappointing to find many candidates including the amount of sales *before* trade discount in the debtor's account, or even listing the trade discount as a separate item in the account. The goods returned were often included at the list price of $90 without any attempt being made to reduce the amount to that actually charged for those goods ($90 less 20% trade discount). A number of candidates managed to show a balance on Carol Lee's account in addition to writing the outstanding amount off as a bad debt.

In both ledger accounts transactions were often undated.

(b) (i) Most candidates correctly named prudence as an accounting principle which is applied when maintaining a provision for doubtful debts. The matching principle was also acceptable.

(ii) Candidates were required to give an explanation of *why* the principle named in **(b) (i)** was applied. Those who had suggested the principle of prudence often correctly explained that it avoided profits being over-stated. Many ignored the fact that it also ensures that the debtors are included at a more realistic amount in the balance sheet.

Very few of those candidates who had suggested the principle of matching were able to offer an acceptable explanation. The application of this principle ensures that those sales for the year which are unlikely to be paid are treated as an expense of that particular year.

(c) A provision for doubtful debts account was provided showing an opening balance, a closing balance and the transfer to profit and loss at the end of the financial year. Candidates were required to explain *why* $80 was transferred to the profit and loss account and whether the entry would be debit or credit in the profit and loss account.

There was a very wide range of answers, many of which were disappointing. Some candidates simply stated that bad debts are an expense, or that the amount represented bad debts which had been recovered. The $80 transferred to the profit and loss account was the difference between the provision for doubtful debts at the start of the year and the provision required to carry forward to next year. In this case it was the amount of surplus provision not required.

As this $80 represented a surplus provision it would, of course, appear as a credit item in the profit and loss account.

(d) Using given data, candidates were required to calculate the collection period for debtors. It was pleasing to find many wholly correct answers to this question. An answer in days, weeks, or months was acceptable. A few candidates lost marks failing to specify what their answer represented. A few candidates incorrectly attempted to multiply by either 28 or 100.

(e) Four ways in which a trader could improve the collection period for debtors were required. Once again, it was pleasing to find many wholly correct responses. Many correctly identified offering cash discount for prompt payment and charging interest on overdue accounts. Other acceptable responses included improving credit control, refusing further supplies until any outstanding balance is paid, invoice discounting and debt factoring. Some answers appeared to be listing ways to reduce bad debts which was not what the question asked.

Question 5

This question included the preparation of partners' capital accounts, theory questions concer admission of a new partner, and the preparation of departmental final accounts.

(a) Using given data, candidates were required to write up the capital accounts of two partners. Bot traditional "T" accounts (either two separate accounts or columnar format) and three column running balance accounts were acceptable.

Marks were often lost needlessly by the omission of dates (especially years), failure to bring down balances on "T" accounts, and the use of inappropriate descriptions (such as "transfer" and "bbd"). The transfer from David's current account was often incorrectly credited to David's capital account.

(b) Departmental final accounts had to be drawn up from given data. This question was very well answered and the majority of candidates were able to earn full marks. Some candidates lost marks through lack of attention to detail such as failure to label gross and net profits. Presentation could have been improved in some cases where candidates attempted to use only one column per department. Only a very few candidates made the mistake of preparing two completely separate trading and profit and loss accounts.

(c) Candidates were required to explain why the existing partners should value the goodwill of the business before admitting a new partner. The responses to this question were very disappointing. The majority of candidates attempted a definition of goodwill or an explanation of changing profit-sharing ratios on the admission of a new partner. Very few candidates explained that a new partner joining an existing partnership will benefit from the goodwill built up by the existing partners who must be compensated for this.

(d) Two advantages and two disadvantages to a new partner joining an existing partnership were required. Most candidates were able to earn some of the available marks for this question, although explanations were sometimes rather vague. A number of candidates offered explanations of advantages and disadvantages to the existing partners rather than to the new partner.

Acceptable advantages included an explanation of the fact that the new partner would have a share in the profits, could take part in decision-making and had prospects for the future. Acceptable disadvantages included an explanation of the fact that the new partner would be liable for the debts of the business, would have greater responsibilities and would probably have to invest capital.