

ACCOUNTING

Paper 0985/12
Paper 12

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

Key messages

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

Candidates are advised to read each question very carefully to ensure that they have a clear understanding of exactly what is required before selecting an option on the answer sheet.

General comments

Those candidates who possessed a good understanding of double entry and the financial statements of various types of organisations were able to select the correct key to many questions on the paper.

Comments on specific questions

Question 6

A cheque counterfoil is a source document for a credit entry in the bank column of the cash book as it records a payment made by cheque. A cheque may be sent to a supplier but the cheque counterfoil always remains in the cheque book. The key was **A**.

Question 10

If a sales invoice is incorrectly entered in the sales journal this will automatically result in incorrect entries in both the sales account and the account of the individual credit customer. Both the debit and credit totals of the trial balance will be affected. In this scenario both accounts were overstated by \$1000 so the key was **A**.

Question 11

The key was **D**. Where a payment is made by standing order this must be recorded in the accounting records even if the entries are not made until after the receipt of the bank statement. In this case it is necessary to make entries in the cash book and the rent account in the nominal (general) ledger to ensure accuracy of the double entry records. Items appearing on the bank statement but not in the cash book do not appear in the bank reconciliation statement.

Question 12

The bank statement showed that a business had a positive bank balance of \$2690. On the same date there were unpresented cheques amounting to \$850. These would have been recorded on the credit side of the cash book when they were issued. This would result in the bank balance in cash book being \$850 lower than that shown on the bank statement. It should be remembered that the bank statement and the cash book are recorded from different perspectives so the bank column in the cash book would show a debit balance of \$1840 (option **B**).

Question 15

The vast majority of candidates appreciated that every entry in the ledger must have a debit entry and a credit entry, but many of these candidates did not select the key, **B**. When rent is prepaid at the end of a financial year it is credited to the expense account and carried down as a debit balance. This ensures that the account starts the following year with a debit balance which is an asset.

Question 16

The closing inventory was overstated by \$160 (\$340 – \$180) because of the damaged inventory. However, it was understated by \$100 because some items had been valued at \$7 each instead of \$8 each. Overall the inventory was overstated by \$60. Overstating the closing inventory means that the gross profit is also overstated by the same amount. The key was **A**.

Question 18

The capital and liabilities section of a statement of financial position shows where the resources of the business have come from (option **D**). A number of candidates incorrectly selected option **C**. The capital and liabilities section does show the amounts *owed by* the business – but not the amounts *owed to* the business.

Question 26

The subscriptions actually received during the year could be calculated as –

Total subscription for the year (\$6000), add the amount prepaid for next year (\$600) add the amount accrued at the start of the year (\$720) less the amount accrued at the end of the year (\$480). The key was **D**.

ACCOUNTING

Paper 0985/22
Paper 22

Key messages

The format of this paper is now well established following its introduction in 2020 with five questions of 20 marks each and discussion style answers that result in a business recommendation being made by the candidate. There is a clear improvement by candidates on answering this style of question which is very encouraging, but at the same time the need remains to be able to record and process accounting information accurately upon which to base sound commercial decisions.

This paper is a balanced assessment with a standard to comparable years and well prepared candidates should have found this relatively straightforward whilst finding themselves suitably challenged by **Questions 3 and 5**.

General comments

There is a clear need for candidates to have a firm grounding in applying double-entry bookkeeping techniques. There is a need to revisit and reinforce these techniques so that they can be applied for example in **Questions 1, 4 and 5**. Candidates who performed less well often only had a superficial knowledge of these techniques and this was accompanied with poorly presented financial statements that lacked appropriate narratives or contained incomprehensible abbreviations. Examples regularly seen were 'referring to depreciation (dep), provision for doubtful debts (Prov for DD) and Gross profit (GP)'. Where a recommendation is a required outcome of the **Question (1d, 5b,)** candidates should indicate it clearly, without giving conflicting suggestions.

Where candidates cross out answers or make an addition/alteration at a later stage it is most important that they instruct the Examiner for example 'refer to page 21 of the answer booklet'.

Comments on specific questions

Section A

Question 1

- (a) This question required the construction of a sales and purchase ledger control account. This is usually a popular topic and covered both aspects of the sales and purchase ledgers. Surprisingly there very few fully correct answers. Common errors were the inclusion of items that should not appear in the account such as 'cash sales', 'cash purchases' and 'provision for doubtful debts'. The impact is that the closing balances are therefore 'corrupted' and cannot be used for 'checking/control' purposes. The entry of items on the wrong side of the accounts usually indicated a poor understanding of 'double-entry' and the closing balance on the sales ledger control account was often omitted although it was supplied in the question.
- (b) Tested the knowledge of candidates to identify where source documents are posted into specific books of prime entry. Responses were very mixed, 2 marks were regularly gained for returns and discounts allowed, however interest charged and contra entries were often answered incorrectly indicating a lack of understanding of the purpose of the general journal and the link to the posting of source documents.
- (c) The reason why a credit balance can occur in the sales ledger account was not well answered. There was a common misunderstanding that the balance had been brought forward from another

period but did not give a reason for the balance such as 'overpayment' or 'payment in advance by a customer'.

Question 2

- (a) This was generally well answered and candidates demonstrated a good understanding of how to construct a trading account. A common error was to confuse the opening and closing inventory figures and to arrive at a gross profit of \$54000. An own figure mark was awarded for the net profit calculation but this figure was corrupted by items such as trade payables and receivables in weaker responses.
- (b)(i) Gross margin is a straightforward ratio calculation and full marks were often obtained. It is essential to show formulas and workings in order to gain all marks. The trade payables turnover was occasionally based on 360 days and this is not a recognised standard calculation.
- (ii) Again this was generally well answered demonstrating a clear understanding of the dynamics required to improve a gross margin. The key is to increase selling price or reduce the cost of sales by sourcing cheaper supplies. Weaker answers just mentioned increased sales, which would not impact upon the margin, or simply said 'reduce the cost of sales' but gave no reason on how this change could be achieved.
- (c) Required a standard ratio calculation for the trade receivables turnover and this was well answered. Weaker answers were evidenced by the use of an incorrect denominator such as purchases (\$109 000) or made a correct calculation but did not round up to the next whole day.
- (d) This question required the candidates to advise a business owner whether to allow an extra 14 days' credit before his customers pay their invoices. The answer required a detailed look at either the advantages or disadvantages of the proposal or a balanced approach that considered both the pros and cons of the scenario. Whichever approach was considered this could then be used to support a clear recommendation. Well prepared candidates scored high marks with logical points being made and linked to increased sales and improved customer relations. The question gave a clear indication of the reason for the proposal as 'Jabir wants to increase his credit sales' and the less informed answers did recognise the possibility of increased irrecoverable debts although often were unable to contribute further relevant points.
- (e) Required a standard ratio calculation for the trade payables turnover and was generally very well answered. As in (2c) incorrect denominators were used, formulas inverted or a correct calculation followed by not rounding up to the next whole day, this being a standard approach to reporting trade receivables/payables turnover ratios.
- (f) There were a range of answers that demonstrated a clear understanding of the reasoning behind increasing purchases in order to obtain a 100 per cent increase in trade discounts. Good answers focused on the reduced cost of sales/purchases leading to increased gross profit. The downside could be increased inventory and associated inventory holding costs and obsolete goods. The overall approach to the answer is the same as in (2d) requiring a detailed look at either the advantages or disadvantages of the proposal or a balanced approach that considered both the pros and cons of the scenario. Whichever approach was considered this could then be used to support a clear recommendation.

The weaker answers tended to focus on improved profits which did not necessarily follow and needed to be linked to additional points within the mark scheme.

Question 3

- (a) The manufacturing account is a financial statement that has a well established format. It should be recognised by candidates with the same degree of importance as income statements and statements of financial position. However, many answers contained a poor layout and a lack of structure that defines the purpose of arriving at the total cost of goods manufactured.

The most common errors were extraneous items such as factory overheads being included within the prime cost section and missing labels for the 'cost of materials consumed' and 'prime cost' that represent important stages within the construction of the account. The weaker candidates would

also include all categories of inventory and this seemed to indicate unfamiliarity and or a lack of practice with this type of statement.

On a positive note most candidates were able to calculate depreciation correctly and dealt competently with the accrual and prepayment adjustments required in the overheads section of the account.

- (b) Following on from the manufacturing accounts in (2a) candidates were required to produce the trading account for the company. This is a familiar statement for most candidates and this question was very well answered. There were two common errors made however. Firstly the omission of the cost of production figure that needed to be brought in from the previous manufacturing account. Secondly carriage inwards is a component of the cost of sales calculation but often this was missed out. It is important to emphasise that the statement has a recognised order of construction and appropriate labels that must be followed.
- (c) The last two parts of this question concerned a customer that had become an irrecoverable debt due to bankruptcy. An entry was required to record the amount into the journal and both marks were generally gained. The errors most often seen were to credit KA Ltd instead of the customer DH Ltd, or to debit and credit the names of both companies.
- (d)(i) The theme of irrecoverable debts and the need to maintain a provision for doubtful debts was further explored by requiring an explanation of how the accounting principle of matching is applied. The mark scheme is very precise and weaker responses included discussions regarding the general matching principle instead of applying it specifically to the doubtful debt provision.
- (ii) This final part to the question required a link to be made between doubtful debts and the prudence concept. Answers were much better and candidates clearly grasped the need not to overstate profits or the value of trade receivables in the accounting statements. The message here is to look carefully at the question in order to determine if the principles require a general explanation or as in this case they needed to be tailored to the specific accounting aspect of doubtful debts.

Question 4

- (a) This question required four journal entries to be made correcting errors that had been discovered following the production of the trial balance. Ten marks were available and answers were generally very good. Candidates who have a grounding in double entry bookkeeping find this exercise as straightforward and achieved high marks. The purpose of the exercise is to correct the ledger accounts and when carried out correctly it will eliminate any suspense account amount that has been generated to produce the trial balance in **part (4b)**.

The process of error correction through journal entries is a regular exercise in manual and computerised accounting systems and the importance of understanding this routine for candidates cannot be over-emphasised.

- (b) There were few fully correct answers to this question that required the writing up of the suspense account and the elimination of any balance within the account. A clear understanding of double entry bookkeeping allows candidates to follow the information route from the journal into the suspense account. Not all of the errors will pass through the suspense account (see error 4), but weaker answers would often include all of the error corrections.

This area of the syllabus covered in **parts (4a and b)** should be viewed as a logical exercise starting with error correction, the writing-up of the journal and then the transfer of entries from the journal into the suspense and appropriate ledger accounts. This holistic system approach will help to develop the level of candidates understanding of these topics.

- (c) The last part of this question required a review of the errors already given and to determine their individual increase or decrease upon profit after carrying out any corrections. The question was on average reasonably well answered as logic could be applied to expenses/revenues under or overstated would indicate the numerical impact upon profits. The simple layout resulting in overall profit/loss for the year seemed to phase some candidates. The total of the increases less the total of the decreases results in a net change which is then added to the initial profit. There were many examples of both columns being added together or the initial profit being omitted from the final calculation.

Question 5

- (a) This final question was by far and away the most challenging for candidates and represented 15 marks in total. The requirement was to produce three ledger accounts that would record the disposal of a non-current asset (delivery vehicle), the calculation of the depreciation charge over two accounting periods and finally to ascertain any profit or loss to transfer to the income statement through a disposal account.

There were few fully correct answers. The disposal and provision for depreciation accounts require practice and as mentioned earlier relies upon double entry bookkeeping skills to update the accounts correctly. The majority of errors can be classified as follows:

- entries on the wrong side of the account
- all entries included in the vehicles or in the provision for depreciation account
- no entry for disposal in the provision for depreciation account
- incorrect narratives for income statement, disposal and bank entries
- combination of the above errors.

- (b) The remaining 5 marks were awarded for the consideration of whether Simon should change the method of charging depreciation from straight line to reducing balance for his business. Responses could be described as weak, with many answers concentrating on the resulting value in the event of a sale of a vehicle and which method would give the most profit to the business owner. Emphasis needed to be placed upon the most suitable methods for a vehicle to be depreciated and if it would give the most accurate net book value.

There were some good comments that recognised the importance of the 'consistency' principle and this could be factored into any qualities that were mentioned for both methods. The reducing balance featured predominately in most answers, more contrasting points could have been considered given that the business currently uses the straight-line method of calculating depreciation.