

## **ACCOUNTING**

### **SUBJECT 9197**

#### **PAPER 3**

#### **GENERAL COMMENTS**

The question paper was largely fair in that it had content validity. All questions were set on the current syllabus. The questions were all quite clear because there was no evidence that the candidates misconstrued any of them.

#### **COMMENTS ON INDIVIDUAL QUESTIONS**

##### **QUESTION 1 (a)**

- (i) required the candidates to prepare a capital reduction account for a company which has been in distress for a number of years. Some candidates did not appear to know what to include in the capital reduction account. Others reversed their entries. Yet others appeared to be guessing, for instance one would credit the amount of reduction in ordinary share capital to the capital reduction share capital to the same account. Teachers and students should take note that a capital reduction scheme has to be sanctioned by a court law and no court would allow such a scheme if it results in a debit balance on the capital reduction account.
- (ii) required the candidates to prepare the company's balance sheet after the capital reduction scheme had been effected. Some candidates included motor vehicles in the balance sheet when the question clearly indicated that these had been sold. Some candidates did not adjust the debtors for bad debts. The majority of the candidates did not correctly adjust the bank balance, with some opting to open a cash account instead. In short there was evidence that the candidates, in general, did not read the question well. Teachers and students should note that the nominal value of the shares should be stated in the balance sheet.

##### **QUESTION 1 (b)**

This question required the candidates to distinguish between capital reserves and revenue reserves. While some candidates earned good marks in this part of the question, the answers of most left a lot to be desired. Some candidates' definition of capital reserves referred to revenue reserves, to the extent that some candidates gave the general reserves and the fixed assets replacement reserves as examples of capital reserves. The opposite was also done, with some candidates giving the share premium amount as an example of a revenue reserve.

**QUESTION 2 (a)**

This question required candidates to prepare a trading profit and loss and appropriation account from given data. This was an easy question for this level and some candidates scored maximum marks. However, a good few did not correctly calculate the proposed final dividend on ordinary shares. Yet others could not appreciate the fault that there was an accrual on debenture interest and charged \$25 000 as interest when the correct figure was \$15 000. The sequence of entries was also not correct in most answers. Teachers and students should note that companies pay interest before tax and then declare dividends if they so wish.

**QUESTION 2 (b)**

This question required candidates to calculate a number of investment ratios and the net profit percentage, based on their answers to part (a). The greatest let down for most candidates was that they did not know the applicable formulae. Furthermore, while the question clearly stated that answers should be correct to two decimal places, most candidates rounded their answers to one decimal place or even the nearest whole number.

**QUESTION 2 (c)**

- (i) This part of question required the candidates to explain how companies can sue ratios to assess their own performance. While the majority of the candidates responded well to this part of the question, a few tended to comment on the ratios that they had calculated in part (b).
- (ii) This part of the question required the candidates to explain why the return on capital employed is an important measure of the performance of a company. Some candidates answered the question well but others tended to analyze the formula of the ratio, thereby losing a lot of easy marks.

**QUESTION 3 (a)**

- (i) This part of the question required the candidates to recalculate gross profit of the company, taking into account some errors and adjustments.
- (ii) This part wanted a re-calculation of the net profit. It was dismaying to note that a good number of candidates do not have an appreciation of what affects the gross profit and the net profit. Teachers should take note that candidates require a sound knowledge of the principle of double entry in order to answer such questions well.

**QUESTION 3 (b)**

- (i) This part of the question required journal entries to correct given errors. This part of the question also showed the extent of ignorance of basic double entry at this level.
- (ii) This part of the question required the candidate to write up a suspense account. This was also a challenge to the candidates to demonstrate knowledge of double entry. Their responses indicated that a lot of work needs to be done in this regard.

**QUESTION 3 (c)**

This question required the candidates to explain why fixed or non-current assets are depreciated. These were easy marks if the candidates had done any reading and most of them did not disappoint. However, it must be noted that we do not depreciate fixed assets to be able to replace them.

**QUESTION 4 (a)**

This question required candidates to prepare two consecutive process accounts. While the majority of candidates did well to prepare Process 1, Process 2 account was not all that well done. Some candidates prepared process accounts based on unit costs when they should have used the relevant level of activity. A challenge to most candidates was the calculation of the value of finished goods and work in progress based on the degree of completion. This is a critical point of the syllabus which should be done thoroughly. Many candidates lost marks on this part.

**QUESTION 4 (b)**

This question required the candidates to outline any five features of process costing. These were easy marks but because most candidates had not properly prepared they lost such marks. For instance, not all process costing results in joint products, abnormal losses and so on.