

ACCOUNTING

SUBJECT 9197

PAPER 3

GENERAL COMMENTS

The paper was fair in that it had content validity. All the four questions were set on the current syllabus. Items on Financial Accounting and Reporting accounted for seventy five (75) per cent of the marks with the rest going to the Cost and Management Section of the syllabus. This is in accordance with the specification grid for the syllabus. In general candidates performed much better than they did in the previous edition of the paper. Part of the reason may be that the year 2009 experienced fewer disruptions to students' learning than 2008. But it is also felt that the level of the item requirements also contributed to the improved performance.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

Part (a) (i) of the question required candidates to prepare journal entries to correct certain errors that had been detailed. The General Journal is one of the most frequently used of the Subsidiary books. This means that it is taught at elementary levels as well. It was dismaying to find that this simple task was beyond some of the candidates at this level. The question asked the candidates to ignore narrations. Some candidates took this to mean that they did not have to state the name of the accounts to be debited and credited, instead just inserting the amounts in the respective columns. It would also appear that when some candidates see the word "suspense" in the question they think that all errors must involve the suspense account. Yet this is not necessarily the case, for instance item (iii) was an error of omission while item (iv) was an error of principle. Such errors do not cause the Trial Balance totals to disagree.

Part (a) ii of the question required the candidates to write up the Suspense Account from the journal entries. Surprisingly some candidates posted to the wrong side of the Suspense Account and consequently, their suspense accounts did not clear.

Part (b) of the question required the candidates to prepare a corrected Trial Balance. The majority of the candidates performed well in this part.

Part (c) of the question required the candidates to prepare a statement of corrected net profit. This part of the question was poorly done by many candidates with some thinking that ----- from debtors' accounts affected profits.

QUESTION 2

Part (a) (i) of the question required the candidates to prepare a Trading and Profit and Loss Account for a Private Limited Company. In preparing the accounts, the candidates had to account for the redemption of preference shares at ---- half way through the year. A good number of candidates did not transfer the nominal value of the shares so redeemed to a capital redemption reserve account as required. As a result, some of the candidates provided for a final dividend on shares that had been redeemed. Additionally, they did not report this reserve in the equity section of the Balance Sheet. Although the question specifically instructs the candidates to use the reducing balance method to depreciate motor vehicles, many of the candidates used straight line depreciation. Candidates should ensure that they understand the requirements of a question before proceeding to answer it.

Some candidates changed debenture interest of \$1 800 for the full year when in fact the ten per cent (10%) debentures had a nominal value of \$36 000.

Finally some candidates provided for a final dividend on the ordinary shares based on the authorized capital when the correct procedure is to use the Issued Share Capital.

Part (a) (ii) of the question required the candidate to prepare the Balance Sheet for the same company. Errors made in part (a) cascaded to this part of the question, for instance the net book value of the motor vehicle was incorrect in most cases because the wrong depreciation method had been used in part (a) (i).

Part (b) of the question required candidates to explain two advantages and two disadvantages to a company, of ----- funds through the issue of debentures. Many a time candidates would just mention an advantage without explaining it. For instance many candidates mentioned that debentures are later redeemed, without explaining that the redemption would dominate interest payments associated with debentures.

QUESTION 3

Part (a) (i) of the question required candidates to calculate profitability ratios for two consecutive years from given Trading and Profit and Loss accounts. Candidates should note that the stock turn over rate and the gearing ratio are **NOT** profitability ratios. Neither are asset utilization ratios.

Part (a) (ii) of the question required candidates to use information from two consecutive balance sheets, to calculate liquidity ratios. Candidates should note that debtor's collection periods and creditors' payment periods are not liquidity ratios although they are sometimes described as financial ratios.

Part (b) of the question required candidates to write a report to the directors company the ratios that they had calculated in parts (a) (i) and (ii). Such a report has a standard format and candidates needlessly lost marks by not adhering to that format.

Candidates are also strongly warned against rounding off figures unless the question requires it. A lot of accuracy is lost because of this practice.

Finally, instead of comparing the two sets of ratios as demanded by the questions, a good number of candidates assessed the ratios against some criteria that they are aware of.

QUESTION 4

Part (a) (i) of the question required the candidates to prepare a simple cash budget. It is very easy to gain marks from questions on budgets because all the candidate needs to do is to follow instructions. Sadly, a significant number of candidates did not follow instructions and did badly.

Some candidates aggregated their receipts instead of showing each clan of receipt instead of showing each clan of receipt separately. Part (a) (ii) of the question required the candidates to prepare a simple master budget. Again, candidates lost marks by not strictly following instructions, particularly regarding depreciation of fixed assets.

Part (b) of the question required the candidates to explain why the budgeted profit will be different from the budgeted bank balance at the end of the budget period. All the reasons flow from the fact that cash budgets are prepared on a cash budget while budgeted profit and loss accounts are prepared on the accrual principle.

A final observation is that many candidates those not to answer question 4 when it was compulsory. The obvious conclusion is that candidates had not covered the topic in their ----- at school.