

ACCOUNTING

SUBJECT 9197

PAPER 3

GENERAL COMMENTS

On the whole, it is felt that the examination paper was a fair assessment instrument in that all the items were set on the current syllabus. However, performance by the candidates was, generally, below the expected standard. In general, teachers and students are reminded that workings must be shown when answering Accounting questions and they must be adjacent to the answer to which they relate.

QUESTION 1

Part (a) of the question required the candidates to prepare a club's trading and profit and loss accounts. Many candidates did not adjust the cost of sales for obsolete stock. Furthermore, the case of such stock was not written off to the profit and loss account. Teachers and students are reminded that the cost of any stock loss, through whatever means, is an expense to the organization because it would have cost resources to acquire it.

A common error was to deduct the \$250 000 cost of obsolete stock from purchases. This is obviously wrong because the question does not tell us that the obsolete stock arose from goods bought during the period. It is equally wrong to subtract it from either the opening stock or the closing stock.

Many candidates failed to appreciate that the purchases figure of \$23 300 000 had to be calculated. They simply took the \$26 500 000 paid for bar purchases for the cash book of the club.

Part (b) of the question required the candidates to prepare an income and expenditure account for the club. Many candidates appeared not to be able to distinguish items for the bar trading and profit and loss amount from those for the income and expenditure account. Consequently, they duplicated the items in both accounts, leading to loss of marks.

Some candidates incorrectly treated the \$6 000 000 opened donation as income for the current year. The purpose of the donation was to provide funds in the form of interest to be used to pay for an annual prize. Thus it should be added to the balance of the accumulated fund in the balance sheet.

It was also frustrating to find that quite a significant percentage of the candidates did not know how to adjust the subscription amount. A lot of marks were lost here because the final transfer to the income and expenditure account was heavily weighted. Subscriptions written off should have been changed to the income and expenditure amount as expenditure. It is wrong to refer to this item as bad debts.

The calculation of depreciation on motor vehicles proved a challenge for most candidates and very few got the correct \$9 000 000.

A good number of candidates did not account for dividends from the investments and some of those who did treated them as a current liability in the balance sheet when, in fact, it is a current asset.

Some candidates decided to present horizontal income and expenditure accounts, but, unfortunately, reversed their entries, leading to heavy losses of marks. The trend these days is to prepare financial statements in vertical format.

Part (c) of the question required candidates to prepare the balance sheet of the club. Some candidates failed to appreciate that the \$6 000 000 donations should have been shown both as an investment and in the equity and liabilities section. Many candidates treated the investments of \$4 500 000 as a non-current asset when the correct accounting treatment was to show it in between current and non-current assets.

A good number of candidates did not prepare a receipts and payments account to find the closing bank balance which was an overdraft of \$3 900 000. A few candidates did not accurately calculate the accumulated fund of \$60 700 000.

Teachers and students are reminded that a bank overdraft is not shown as a negative figure under current assets but as an item under current liabilities.

It was also noted, with concern, that some candidates duplicated the special donation of \$6 000 000 in the income statement and the balance sheet.

QUESTION 2

This is the first time that a question of this nature was set for this paper. Perhaps this was the reason for the poor performance by the majority of the candidates. However, it must be pointed out that IAS7 Statement of Cash Flows is part of the syllabus.

Part (a) of the question required the candidates to prepare a corrected cash flow statement from one which had been erroneously done and adjustments. Almost all the candidates did not follow the format of IAS7 (Revised). They did not show cash generated from operations as well as operating profit before working capital changes as required by the standard.

Many of the candidates did not correctly adjust the net profit to get \$87 100 and use it in the Statement of Cash Flows. Some used the unadjusted net profit of \$145 000 given in the question.

The depreciation figure of \$113 500 proved elusive to most candidates. Many of the candidates failed to appreciate that, since the figure of closing creditors had increased, the change in creditors should decrease whilst the new vehicle under cash

flows from investing activities cost \$170 000, only \$155 000 has actually been paid. Under cash flows from financing activities many candidates failed to adjust the use of these for the bonus issue. Almost all the candidates did not get the net decrease in each and cash equivalent of \$233 500 correct.

Part (b) of the question required the candidates to state four differences between a statement of cash flows and a profit and loss account. Whilst many candidates acquitted themselves well in this regard there was a tendency by some candidates to treat the two as if they were opposites – e.g. “a cash flow statement shows the movement of cash” a profit and loss account does not show the movement of cash.

QUESTION 3

The general performance in this question was not as good as might be expected.

Part (a) of the question required the candidates to prepare the balance sheet of C.G.N. Limited as it would appear after the company had purchased a partnership.

Many candidates prepare a realization account when the correct account to be prepared was the purchase of business account.

A significant number of candidates did not calculate the goodwill on purchase and many of those who did get incorrect answers.

Some candidates had problems in calculating the amount of debentures in the company that was required to extinguish the loan in the partnership. It was also disturbing to note that some candidates could not simply aggregate the liabilities and assets of the two businesses that had combined. Some candidates combined land with buildings and also equipment with office furniture when, on final, the question separated these accounts.

It was also of concern to note that some candidates showed partners' capitals, complete with drawings, in the balance sheet of the company. The nominal value of the new shares issued and the share premium caused problems for some candidates. Some candidates had a revaluation reserve account instead of goodwill on acquisition.

Part (b) (i) of the question required the candidates to identify two sources of finance that this company could use to expand its operations. A number of candidates appear not to understand the difference between finance for expansion, e.g. asset of shares and debentures, and finance for working capital requirements, e.g. debt factoring, of idle fixed assets, etc.

Part (b) (ii) of the question required the candidates to explain one advantage and one disadvantage of the sources of finance identified in (b) (i). Because some candidates identified wrong sources, they automatically lost all the marks.

Some candidates explained the advantage and disadvantage to the providers of finance when such advantages and disadvantages should have been to the company requiring the money to expand its operations.

Candidates should also take time to explain why they think an advantage is an advantage. Some of them appeared to assume that it would be obvious to the examiner.

QUESTION 4

The majority of the candidates performed below the expected standard in this question.

Part (a) of the question required candidates to calculate cost unit overhead absorbed rates at normal activity level. Most candidates answered this part well. One problem was that some answers were expressed as percentages when they should have been in dollars and cents per unit.

Part (b) required the candidates to calculate the fixed production overhead absorption at a given level of activity and the extent of any over or under absorption of such overheads absorbed. A good number of candidates also answered this part well.

Part (c) of the question required the candidates to prepare profit and loss statements using absorption costing and marginal (variable) costing. The majority of candidates did not do this part well. Some of the candidates appeared not to know the difference between the two. Some candidates calculated the contributions margin in the absorption costing profit and loss amount while others calculated the gross margin (profit) in the marginal costing profit and loss account. A serious error was the inclusion of selling overheads in the cost of production. Many candidates could not calculate the values of opening and closing stocks, a crucial difference between absorption and marginal costing.

Part (d) of the question required the candidates to reconcile the absorption costing profit to the marginal costing profit. Because they had not done the profit and loss accounts well, it was not possible for most candidates to answer this part.

Part (c) of the question required candidates to state any three advantages of absorption costing. A good number of candidates failed to state one, let alone three. Some gave characteristics of absorption costing, not advantages. Furthermore to state is not to write a paragraph.