



Chartered  
Institute  
of Credit  
Management

**Accounting Principles  
Question Paper, Answers and  
Examiner's Comments**

## **ADVICE TO CICM LEARNER CANDIDATES**

### **HOW TO TACKLE YOUR ACCOUNTING PRINCIPLES EXAMINATION**

#### **1. Be prepared.**

Read the Accounting Principles unit syllabus contained in the Level 2 and Level 3 Diploma in Credit Management Syllabus booklet, free to download from the CICM website if you do not already have an up-to-date copy. It contains all the learning objectives that might be tested in the examination, along with indicative content of what the unit is about. You can use it to help plan your learning and to check you are adequately prepared.

#### **2. Examination structure and rubric.**

Remember that the unit syllabus and examination rubric changed in Summer 2016. Some features of the examination are now fixed, so you know that:

- a) It is a three-hour, handwritten examination and a writing booklet for your answers is supplied.
- b) There will be five (5) questions each worth an overall 20 marks.
- c) There are no optional questions or elements in the exam, so you will need to attempt them all. This is consistent with CICM's other core units.
- d) Each question contains parts a), b) and c) which are worth different mark values up to the 20 available for the entire question. In each question, part a) will be a straight-forward task worth 4 marks, part b) will be some form of substantive task for between 10 and 12 marks, and part c) will be for remaining marks up to 20 and may have some connection with or develop the part b) task.
- e) A certain amount of account ledger paper is included in the supplied writing booklet, so you do not have to draw account grids if you need to tackle a book-keeping task.
- f) The pass mark for a Level 2 exam is 40% and marks of 50% and above will receive a Level 3 pass. Unfortunately, marks below 40% are not pass marks.
- g) The language and terminology of the examination is based upon International Accounting Standards as used in CICM's own learning materials for this unit.

#### **3. General approach.**

More exams are failed through poor technique during the examination than from poor knowledge and understanding. The key things to do are:

- a) Read the detail within each question task very carefully, so you are sure what the examiner is asking you to do.
- b) Allocate your examination time carefully. Remember that you should spend roughly the same time on each question overall, but that each question part will need a different amount of time to be spent within that.
- c) Remember to attempt all parts of all questions. It is always worth giving a response, even if you are unsure of it.

#### 4. Giving an effective response.

As with any examination, preparation is the key and practising an effective response to an Accounting Principles task is a worthwhile exam room skill, so it is worth a reminder of what this unit and its exam is about.

- a) The unit and examination is written with the credit industry in mind, so often carries a viewpoint of a customer relationship or credit control situation.
- b) The exam will require skills in description/explanation, application of the practical principles of accounting, and commentary/narrative to convey the meaning of the principles, and the results of applying those principles.
- c) It is not, in itself, an assessment of mathematical ability, although accurate calculations are important and unavoidable in this type of subject.
- d) There is plenty to write about too! It is not just about identifying what a number is, but showing you understand what it means, and why or what its relevance is.
- e) The unit's learning objectives also ask that you construct recognised financial and management statements, undertake accurate tasks, and give explanations. Use the published exam materials to practice this.
- f) It is worthwhile practising in advance not just the subject matter, but also how to use your non-programmable calculator if you choose to bring one to your exam.

The following will help you give an effective response:

- a) Ensure you fully address the tasks set for you. They are not tripwires, but simply to ensure that everyone sits same tasks and that marks are awarded fairly.
- b) Stick to the task and avoid drifting from the set task onto a tangent. Frequently check with the task to ensure you are central to it, as that is where marks are available. Responses not on the set task, or which provide surplus-to-task material, waste exam time and are unlikely to score marks, even if accurate.
- c) Use clear, well-constructed, labelled and accurate layouts to help you get good marks. Where commentary or written explanation is required, it should be clearly expressed and relevant to the task. Whilst not needing a 'beginning, middle, and end' essay, remember these are opportunities for you to show your knowledge and understanding of the syllabus topics under question. A response which is easy to follow is easy to mark.
- d) Take great care to ensure responses are not too brief for purpose. If the task was to 'explain what steps might be needed?' there is a huge difference in response quality (and therefore numbers of marks awarded) between stating that, e.g. more care should be taken, and explaining *why* more care should be taken. Use linking words, such as 'because', or 'meaning that', or 'such as' to prompt a developed on-task response.
- e) Whilst bullet points can be carefully used in responses, ensure you develop each point you make, rather than simply leave a bullet list absent of meaning and understanding, and absent of marks. Go back over bullet points and make sure their meaning is clear. Note that whilst suggested response areas in unit past question papers may be in the form of bullet point responses, you will see that each bullet simply separates one discrete idea from another and that each bullet is extended and developed. This is a safe style if you choose to use bullet points.

- f) Show workings and calculations to support your figures even if you used a calculator to produce or check your response. Even if your 'number' is incorrect, it may still be possible to obtain marks from the methods you used where that was deemed part of the task.
  
- g) Practise extended writing by hand using a ball-point pen or similar – firstly, if you are accustomed to using a keyboard of whatever size to produce written text for work and study, you might find handwriting at length may be quite tiring; secondly, it is an ideal opportunity to practice accurate recall of frameworks, and the extended and developed writing techniques discussed on these pages! Keep handwriting as legible as you can and help the examiner to read your response.

Good luck!

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## Accounting Principles

Level 3 Diploma in Credit Management questions, answers and examiners' comments

**JUNE 2017**

Instructions to Candidates

Answer **all** questions. All questions carry equal marks. Time allowed 3 hours

Candidates are reminded there are no optional elements in this examination

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**Ledger accounts must be prepared in continuous running account balance format**

**Financial statements must be prepared in vertical format**

**FRS terminology should be used in responses wherever possible**

**Credit balances should be clearly shown in brackets ( ) for clarity**

**Where appropriate, VAT is to be calculated at 20%**

*This was the second sitting of the Accounting Principles examination on the revised syllabus using the new structure of five compulsory 3-part questions and in the main it was handled well by the majority of candidates. Most appeared conversant with the accounting and bookkeeping principles, practices, concepts and methods featured in the unit and there was good evidence of preparation and practice with regard to structure, format and presentation of accounting data and information among the sound financial statements, double-entry bookkeeping and cash budgets submitted. That said, this is not a unit solely of numbers or arithmetic and there was an improvement in narratives explaining the results of given or calculated data.*

*Candidates and learning supporters should be mindful that interpretation of results and calculations remains an integral part of this unit and further improvement is still looked for. Nevertheless, congratulations are extended to candidates who were successful at either Level 2 or Level 3, with best wishes for their achievements and their ongoing studies.*

*However, it was also noted that not everyone was able to achieve a pass this time. There was a smaller, but noticeable, number of candidates who were not able to offer responses to every set task, or where responses given were brief, inaccurate, or did not evidence sufficient preparation and an appropriate volume of study practice for this*

examination. This is obviously a concern. Perhaps it will be useful here to remind candidates to resist the temptation to selectively study isolated parts of the syllabus and, in that respect, all candidates are referred to the syllabus indicative content and syllabus topic weightings when planning both study and revision regimes. Whilst further comments are made where appropriate for individual tasks later, the following observations are made with regard to the importance in this subject of communication, accuracy and long-accepted practices in accounting and bookkeeping:

- The structure of some responses is important: for instance, because the structure of financial statements (i.e. Income Statements and Statements of Financial Position) is defined in law, it is difficult to give credit for non-vertical or alternative structures particularly if they are not recognised. Furthermore, it is also difficult to reward the placing of items to a statement if they are not done so appropriately, e.g. an asset placed under a heading showing it as a liability, as this shows a lack of knowledge and understanding.
- Many bookkeeping and accounting principles in the syllabus relate to practices which are long-accepted over many years: double-entry bookkeeping was actually devised several centuries ago, so accuracy is anticipated even in examination conditions, and it is not possible to reward very inaccurate work.
- Communication is a central part of accounting and bookkeeping, so even where a structure is not closely defined in law (e.g. for a budget), it must still effectively communicate the data within it effectively (e.g. receipts and payments clearly marked and listed separately, net cash flow clearly shown, etc.) and be supported by a narrative if this is required by a task.
- Any financial statement or table of accounting information is always incomplete without an appropriate heading to show what the information within it represents, and it was disappointing to note that a number of otherwise excellent financial statements were poorly labelled, so did not attract all the marks available.

Lastly, a reminder that the terminology used within the unit and its learning materials is based upon international standards and it is firmly recommended that future candidates work with the CICM terminology, become familiar with it, and use it in their preparations for their examination.

**Questions start overleaf**

1. a) Explain how a suspense account can be used as part of the book-keeping error correction process. (4 marks)
- b) The following are extracted balances from Harbhajan's business accounts along with other information relating to the business's year end on 30 April 2017. For some reason, the figure for Capital at the beginning of the year has not been supplied, although you have been given the year end net profit figure:

	£
Capital as at 1 May 2016	unknown
Machinery at cost	100,000
Sales Revenue	59,000
Motor Vehicles at cost	50,000
Purchases	25,000
Trade Receivables	13,500
Trade Payables	12,500
Accumulated [ <i>provision for</i> ] depreciation: Machinery	10,000
HM Revenue and Customs: VAT (owing)	7,750
Net Profit as at 30 April 2017	7,105
Accumulated [ <i>provision for</i> ] depreciation: Motor Vehicles	5,000
Water and Utilities	4,500
Inventory as at 1 May 2016	3,500
Wages and Salaries	3,500
Rent	3,000
Bank (in funds)	1,800
Purchases Returns	1,355
Business Rates	1,250
Bad Debts written off	1,150
Sales Returns	1,250
Discounts Allowed	950
Cash in Hand	760
Drawings	750
Discounts Received	550

The Rent figure includes £600 relating to May, June and July 2017.

The Machinery still has to be depreciated at year end by 10% straight line.

There was unpaid Wages and Salaries at year end 30 April 2017 of £800.

Stocktake at year end 30 April 2017 valued Inventory at £5,000.

Motor Vehicles need year end depreciation (diminishing [*reducing*] balance at 10%).

### **TASK for part b)**

Use the information given about Harbhajan's business as appropriate to prepare a Statement of Financial Position for its year end, including the missing figure for Capital. (12 marks)

- c) Explain the problems from a working capital perspective for a business which has i) too many orders and ii) too few orders. (4 marks)

Total 20 marks

### **Question aims**

To test candidates' ability to:

- Explain the place of a suspense account as part of the process to correct unresolved errors detected by a trial balance
- Construct the financial statements for an unincorporated sole trader business, including adjustments
- Explain the importance of working capital in a business in decline or overtrading

### **Suggested grounds for response include:**

- a) A suspense account can be used as part of the book-keeping error correction process as follows:
- Where the trial balance does not agree, in that the debit and credit columns come to different hash totals, the difference is most likely caused by an arithmetical error or a combination of arithmetical errors. These are errors which are identified by an imbalanced trial balance and the imbalance should be investigated and resolved.
  - Examples of these errors might include omission of one side of the double-entry, recording two debits or two credits instead of one of each, recording different amounts in the two entries or extracting account balances to the trial balance incorrectly [*Further details of example errors are not required beyond naming typical examples, and examples of errors not identified by a trial balance are not relevant to the task*].
  - If the error(s) cannot be found and the imbalance not entirely resolved even after investigation, then the trial balance totals should be made to agree with each other by inserting the amount of the difference between the two sides in the 'lower' column and creating a suspense account entry in that sum, supported by a journal entry (as no 'true' transaction has taken place). The Suspense Account sits in the Nominal Ledger and the suspense account entry has the effect of balancing the trial balance at the higher hash total.
  - As errors are subsequently identified and corrected, journal entries are made to support the corrective action taken, and double entry transactions posted featuring the Suspense Account in respect of each error resolved. The corrections made ultimately clear the original suspense account entry if all errors made and detected by the trial balance are resolved.

b)

**Statement of Financial Position for Harbhajan's business as at 30 April 2017**

<b>Non-Current Assets</b>	<b>Cost</b>	<b>Acc. Depn.</b>	<b>NCV</b>
Machinery	100,000	20,000	80,000
Motor Vehicles	50,000	9,500	40,500
	150,000	29,500	120,500
<b>Current Assets</b>			
Inventory	5,000		
Trade Receivables	13,500		
Prepaid Receivables	600		
Bank	1,800		
Cash in hand	760	21,660	
<b>Current Liabilities</b>			
Trade Payables	12,500		
Accrued Payables	800		
HMRC: VAT	7,750	21,050	
Working Capital/ Net Current Assets			610
			121,110
<b>Non-Current Liabilities</b>			
			0
<b>Net Assets</b>			121,110
<b>Financed by:</b>			
Capital			114,755
Drawings			750
			114,005
Net Profit			7,105
			121,110

c) Problems from a working capital perspective may include:

- Many firms may undertake all their transactions on a credit basis but accounts have eventually to be settled with cash. Many firms go bankrupt or into liquidation not because they are unable to trade profitably, but because they run out of cash. A shortage of working capital is one of the most frequent reasons why businesses get into financial difficulties and is typified by a cash flow crisis.
- Overtrading occurs when a business tries to expand too rapidly without having sufficient working capital, and although it has a full order book it has insufficient cash to pay its way and support the level of business. It is particularly common at the end of a recession when orders start to pick up and the business takes on as many orders as possible.

Since the firm has inadequate working capital, it is short of cash flow and is forced to rely on trade payables and an increasing bank overdraft to support the increased levels of inventory and credit sales, awaiting payment from receivables.

- An overtrading business will be characterised by increased sales, inventories, receivables and payables as the volume of business increases. The inadequate working capital means that liquidity problems arise, cash and bank balances decrease and it takes longer to settle payables. The business becomes unable to pay its debts and may be forced into insolvency and close.
- The opposite of this situation is where a business may experience problems because it has insufficient orders. Sales decline, with a corresponding fall in the receivables figure, resulting in lower cash inflows and insufficient working capital to pay suppliers and meet other operating costs, resulting in the same insolvent results.

**Total 20 marks**

*All Tasks a) in this and future papers effectively seek to check knowledge and understanding of the 'nuts and bolts' foundations of particular issues, so the key to successful responses in Part a) tasks relate to the central issues of those topics.*

*In this particular Part a) task, it was given that suspense accounts featured as part of the error correction process, so the task for candidates was to identify how the errors arose to justify using a suspense account, what the function of the suspense account was, what the mechanism was to isolate the errors, or the mechanism by which those errors were corrected, what the end result would be, and so on. Mention of these or other relevant factors such as the need to use journals to correct the transactions would have received credit accordingly to the maximum available. Discussion of the errors that a trial balance would not detect was not correct as that would not give rise to the use of a suspense account.*

*It was interesting also that a number of responses omitted to identify the original issue as inability to agree the debit and credit totals within a trial balance because of one or more arithmetic errors in the ledgers, so it is important not to assume that nothing is too obvious to be worth a mark.*

*In Part b), construction of the sole trader statement of final position by candidates leading to a net asset value which balanced with the underpinning capital and reserves received many of the available marks. There were very good examples of appropriate format, structure and presentation with a clear statement heading incorporating the phrase "as at [date]" and showing column headings also. To do this required practice in exercises and revision, and prospective candidates are freely advised that there is likely to be the need to construct financial statements of one kind or another in future examinations. Even from candidates who responded well otherwise however, was the incorrectly ordered listing of current assets which should be listed in increasing order of liquidity, as in the suggested response.*

*Several responses did not score marks so readily however, and errors such as using the phrase "for the year ended" in the heading, using a framework which was inappropriate for the task, errors in presenting accumulated depreciation and*

*incorrectly using the data relating to trading such as returns and discounts, and expenses, suggested that some candidates were quite unfamiliar with the appropriate content of the required statement. Most surprising perhaps was the small number of candidates who either did not read the task before commencing their response, or did not address the task when they did, evidenced by their construction of an untasked Income Statement and, in some cases, use of a profit figure of their own construction even though an appropriate profit figure was supplied in the set task. Whether correct or not, there can be no marks rewards for responses which are not required by, or do not address, the set tasks, unfortunately.*

*Part c) posed few problems for most candidates. Many could identify what overtrading was and give a good overview as to how this would impact on working capital arrangements, going on to discuss the problems of cash shortfalls preventing prompt payment to suppliers or other commitments. Better responses then also briefly tackled the working capital issue caused by lack of sales. Whilst good papers received maximum marks for this section, some just defined working capital, failing to offer any clear analysis as required by the task.*

2. a) The double-entry ledger is conveniently divided so that accounts with similar characteristics are placed together. Identify each of the recognised ledger divisions and describe, with an example, the account types that each division contains. (4 marks)
- b) ABC Dealing is a business owned and run by Alan B Crick. Whilst the following events took place in the first few days of this month, ledger accounts have not yet been written up and that will become your task here.

01-Jun The business bank account is in funds by £1,500 and there is £2,000 cash in the business's office safe. Open accounts as relevant and simply show these as existing balances brought forward.

01-Jun Bought new inventory on credit from N Joshi and received an invoice for £1,800 inclusive of VAT.

01-Jun Sold goods to Joan's Phones on credit and sent an invoice for £3,500 plus VAT.

01-Jun Alan B Crick puts £2,500 into the business bank account and puts £2,500 into the office safe. This is all new money to his business.

02-Jun Purchased goods for resale in cash from MTC Wholesale and their cash invoice/receipt was £2,000 goods, plus VAT.

03-Jun Sold more goods for £2,700 including VAT and all customers paid by cheque.

05-Jun Goods returned by Joan's Phones and ABC issued a credit note for £250 plus VAT.

06-Jun Alan purchased a second-hand van solely for use within ABC Dealing from D Trotter in cash for £1,200 including VAT.

**TASK for part b)**

Opening ledger accounts as necessary and following recognised bookkeeping and accounting principles, correctly record each of the transactions stated above. (12 marks)

- c) Explain the principles and characteristics of Value Added Tax from a business accounting perspective. (4 marks)

Total 20 marks

**Question aims**

To test candidates' ability to:

- Explain the construction of the accounting ledger
- Apply the rules of double-entry bookkeeping
- Record transactions relating to cash and credit sales, cash and credit purchases, owner's capital, purchase of non-current assets, and value added tax
- Overview VAT from an accounting principles perspective

**Suggested grounds for response include:**

- a) The four sections are:
- **Sales Ledger (SL)** – contains the accounts of trade receivables (so, customers with credit facilities) and records transactions as they appear on the customers’ accounts, such as sales made on credit, sales returns, payments received and any discounts allowed
  - **Purchase Ledger (PL)** - contains the accounts of trade payables (so, suppliers who grant credit facilities) and records transactions as they appear on the suppliers’ accounts, such as purchases made on credit, purchase returns, settlement made to payables and any discounts received
  - **Cash Book (CB)** – holds double-entry Bank and Cash accounts within the business, so records transactions associated with cheques, bank transfers and other inputs/outputs to the business bank account, and records cash in hand held or transacted for whatever reason, so that none is unaccounted for
  - **Nominal Ledger (NL)** - contains the remaining double entry accounts of the business for assets and liabilities, capital and drawings, income and expenses, VAT, etc.
- b) Accounts and required transactions necessary:

ACCOUNT:	DATE	DETAILS	DR	CR	BAL
Purchases NL					
01-Jun		N Joshi PL	1,500		1,500
02-Jun		Cash CB	2,000		3,500

ACCOUNT:	DATE	DETAILS	DR	CR	BAL
VAT NL					
01-Jun		Purchases NL	300		300
01-Jun		Sales Revenue NL		700	(400)
02-Jun		Purchases NL	400		0
03-Jun		Sales Revenue NL		450	(450)
05-Jun		Sales Returns NL	50		(400)
06-Jun		Van/Motor Vehicle NL	200		(200)

ACCOUNT:	DATE	DETAILS	DR	CR	BAL
N Joshi PL					
01-Jun		Purchases NL		1,800	(1,800)

<b>ACCOUNT:</b>	<b>DATE</b>	<b>DETAILS</b>	<b>DR</b>	<b>CR</b>	<b>BAL</b>
Sales Revenue NL					
01-Jun		Joan's Phones SL		3,500	(3,500)
03-Jun		Bank CB		2,250	(5,750)

<b>ACCOUNT:</b>	<b>DATE</b>	<b>DETAILS</b>	<b>DR</b>	<b>CR</b>	<b>BAL</b>
Joan's Phones SL					
01-Jun		Sales Revenue NL	4,200		4,200
05-Jun		Sales Returns NL		300	3,900

<b>ACCOUNT:</b>	<b>DATE</b>	<b>DETAILS</b>	<b>DR</b>	<b>CR</b>	<b>BAL</b>
Bank CB					
01-Jun		Balance b/fwd			1,500
01-Jun		Capital NL	2,500		4,000
03-Jun		Sales Revenue NL	2,700		6,700

<b>ACCOUNT:</b>	<b>DATE</b>	<b>DETAILS</b>	<b>DR</b>	<b>CR</b>	<b>BAL</b>
Sales Returns NL					
05-Jun		Joan's Phones SL	250		250

<b>ACCOUNT:</b>	<b>DATE</b>	<b>DETAILS</b>	<b>DR</b>	<b>CR</b>	<b>BAL</b>
Cash CB					
01-Jun		Balance b/fwd			2,000
01-Jun		Capital NL	2,500		4,500
02-Jun		Purchases NL		2,400	2,100
06-Jun		Van/Motor Vehicle NL		1,200	900

<b>ACCOUNT:</b>	<b>DATE</b>	<b>DETAILS</b>	<b>DR</b>	<b>CR</b>	<b>BAL</b>
Van/Motor Vehicle NL					
06-Jun		Cash CB	1,000		1,000

<b>ACCOUNT:</b>	<b>DATE</b>	<b>DETAILS</b>	<b>DR</b>	<b>CR</b>	<b>BAL</b>
Capital NL					
01-Jun		Bank CB		2,500	(2,500)
01-Jun		Cash CB		2,500	(5,000)

- c) The principles and characteristics of Value Added Tax from a business accounting perspective includes:
- Value Added Tax (VAT) is an indirect tax and is levied on most supplies of goods and services. Whilst a business can voluntarily register for VAT, a business is required to register if its quarterly turnover reaches a particular monetary threshold. An unregistered business must not charge VAT, but must pay it to pay the VAT charged by VAT-registered suppliers. VAT is collected on behalf of the Government Treasury by HM Revenue and Customs (HMRC).
  - Once registered for VAT, a business must include VAT on all invoices and credit notes issued and it is a legal requirement that the organisation opens a VAT account in the books of account to record input and output VAT. On an invoice or credit note, the net goods/services amount excludes VAT. When the VAT is added, this shows the gross invoice or credit note amount.
  - When registered for VAT, the organisation must charge VAT on every sale it makes in accordance with VAT law. This is referred to as **output VAT**. The organisation will in turn have to pay the VAT it is charged on goods and services it obtains from other businesses. This is called **input VAT** which can be reclaimed from HMRC by deducting it from the output tax when the firm makes its regular VAT return and pays what tax is due.
  - VAT law requires that particular goods or services attract different rates of VAT and whilst the standard rate of VAT is 20%, a lower level of 5% is levied on household fuel supplies. Books, children's clothing and food are 'zero-rated' (that is 0% VAT), but that is not the same as being completely 'exempt' from VAT.

**Total 20 marks**

*Part a) posed few problems for candidates with most identifying the four ledger divisions correctly. For maximum marks, the typical content of each ledger division then required a short accurate description. Where there were issues, it involved the Cash Book (either because it was omitted as a division or ignored transactions involving the bank), Sales Revenue and Purchases accounts were wrongly offered as examples of accounts within the Sales Ledger and Purchase Ledger, and incorrectly suggestions that the Nominal Ledger contained the names of all the customers and suppliers.*

*Whilst the Part b) double-entry bookkeeping exercise was also handled well by the majority of students, though there is still a minority who find this type of question troublesome. The principles of accurate bookkeeping do need to be mastered by as much practice as is necessary though as tasks will continue to be set. A completely accurate exercise involving appropriately named accounts with resident ledger names (abbreviations for which are fine so, e.g. 'Sales Revenue NL' is acceptable), a running balance throughout each account, an appropriate 'detail' identifying the account where the other part of the double-entry will be found, and the right figure placed in the correct debit or credit column as appropriate, will always attract maximum marks.*

*Where there were issues this time, most will be resolved by better attention to the following errors (prospective candidates take note!):*

- *Whether account transactions were debit or credit (still being confused)*
- *Brackets used to clearly determine a credit balance (not always)*

- *Incorrect bookkeeping practices: Recording purchases as stock or inventory; recording cash transactions as credit transactions in named accounts; recording cash and non-bank transactions in the bank account; recording the personal investment or withdrawal of money by the owner in named accounts; recording the removal of goods for personal use by the owner as a sale; recording loans by owners and non-owners the same; entering the appropriate account name in the 'Details' column, not a description of the transaction (all commonly seen and all incorrect).*

*Just because a trading party has been named does not signify the transaction has a credit basis and has been recorded on an invoice. VAT has often been calculated incorrectly or the double entry has been confused, with some ignoring the posting required to the VAT account, or posting the entry gross to the Sales Revenue NL or Purchases NL account. Returns continued to cause a problem under several of the headings above.*

*Part c) was answered well in the majority of cases although common errors were to ignore the circumstances in which VAT must be charged, make no distinction between output or input VAT, sidestepping the notion of offsetting one from the other to determine the balance due to/from HMRC, and confusing the organisation's year end/end of reporting period with the VAT reporting period.*

3. a) Describe the role and purpose of an internal auditor for a business. (4 marks)
- b) Neha has drafted the ledger accounts and financial statements at year end for her promotions and marketing business and is pleased that Gross Profit is £74,500 and Net Profit is £14,500. However, on checking the details more closely, she identifies the following:
- A. Rent from a client of £3,500 for the short-term use of an unwanted outbuilding for storage has been credited to the Land and Buildings account.
  - B. The cost of a colour photocopier for the business, £13,500 including installation costs, has been debited to the Purchases account.
  - C. A bill for £650 for repairing some office equipment has been debited to the Vehicle Expenses account.
  - D. The price of a motor vehicle for business use, namely £7,500, has been debited to the Vehicle Expenses account.
  - E. Carriage in of £80 has been entered to the Postage and Delivery account.
  - F. £18,000 from the sale of the outbuilding has been credited to the Sales Revenue account.

**TASK for part b)**

- i) Briefly explain the accounting concern in each of the six situations A to F given above. (6 marks)
  - ii) Ignoring depreciation and other adjustments, and starting with Neha's draft gross and net profit figures, briefly show the effect upon profit of correcting each issue and then give the revised Gross Profit and Net Profit figures after amendments have been made. (6 marks)
- c) Explain the significance of a 'true and fair view' in relation to the accounts and financial statements of a company or other incorporated business. (4 marks)

Total 20 marks

**Question aims**

To test candidates' ability to:

- Explain the usefulness of auditors and audit reports to companies
- Apply the rules of double-entry bookkeeping and accounting concepts in the calculation of different levels of profit in an organisation

**Suggested grounds for response include:**

- a) The role and purpose of an internal auditor for a business includes:
- An internal auditor's role is to scrutinise the company's internal accounting control systems. As internal auditors usually work for the business/company in question and are therefore answerable to its management, their brief can often change as it is not stipulated in law.

- They are often asked to examine the information provided to management to see whether it is reliable and complete, and review the effective implementation of management policies.
  - They will also oversee financial procedures and systems for integrity, such as those relating to the purchase and sale of non-current assets, cash collection and allocation, banking and other similar issues, and the integrity of computer and other systems.
  - Their role is perhaps similar to that of an external auditor, and internal auditors will often review statutory audit issues before the actual external audit takes place or where corrective action has been required.
- b) i) The accounting concern for each of the stated situations in A. to F. are:
- a) Rent from a client of £3,500 for the short-term use of an unwanted outbuilding for storage has been credited to the Land and Buildings account.  
*[Note: situations themselves restated here for clarity only]*  
  
Rent received, so a measure of additional income, rather than an asset sale.
  - b) The cost of a colour photocopier for the business, £13,500 including installation costs, has been debited to the Purchases account.  
  
Asset purchase for long-term use in the business, rather than purchase of goods for short-term inventory and resale
  - c) A bill for £650 for repairing some office equipment has been debited to the Vehicle Expenses account.  
  
Office equipment expenses rather than vehicle expenses, so simply the wrong expense account used
  - d) The price of a motor vehicle for business use, namely £7,500, has been debited to the Vehicle Expenses account.  
  
Asset purchase for long-term use in the business, rather than the expenses of running/repairing a vehicle
  - e) Carriage in of £80 has been entered to the Postage and Delivery account.  
  
Carriage in is a cost of sale and impacts upon the value of purchases, and therefore gross profit; Postage and Delivery, as an expense account, would impact upon net profit as a cost of generally running the business, rather than a cost of trading
  - f) £18,000 from the sale of the outbuilding has been credited to the Sales Revenue account.  
  
This is the sale of an unwanted non-current asset, not part of normal trade for this firm.

b) ii) Neha's revised profit

	£
<b>Gross profit before corrections</b>	74,500
Cost of photocopier (a non-current asset, not goods for resale)	13,500
Carriage in (a cost of sale, not an expense)	(80)
Sale of a building (a non-current asset, not part of trading)	(18,000)
<b>Revised gross profit</b>	<u>69,920</u>
<b>Net profit before corrections</b>	14,500
Motor van (a non-current asset, not an expense)	7,500
Carriage in (a cost of sale, not an expense)	80
Rent (other income, not an asset purchase)	3,500
<b>Revised net profit</b>	<u>25,580</u>

The cost of repairing office equipment is already allocated to an expense account (albeit the wrong one), but correction by transfer to another expense account will have no additional impact upon either profit level.

Above are guidelines only. There may be many variations on the actual responses given and, if relevant, marks will be awarded.

c) The significance of a 'true and fair view' in relation to the accounts and financial statements of a company of other incorporated business includes:

- The external auditor normally expresses an opinion in the audit report to all connected stakeholders that the financial accounts and financial statements of the company show a 'true and fair view' of the financial affairs of that company at the time of the audit.
- 'True' suggests that the accounts and statements are, for instance, free from significant errors or omissions, and factually correct; 'fair' suggests free from deliberate and misleading bias, and reflect reality for the organisation. Consequently, those accounting statements should be objectively and consistently prepared using applicable accounting frameworks and regulations.
- UK company law puts the burden of ensuring this upon the directors and discharge of that duty is checked by auditors, so that the actual business dealings and business results of the organisation are properly represented by the financial statements.
- From a credit management perspective, the statement implies that the accounts have been drawn up following accepted accounting principles, that proper records have been kept and that the statements are in accordance with underlying conventions. The credit manager can therefore have a certain degree of confidence in the financial statements scrutinised by the auditors that these things are happening.

**Total 20 marks**

Part a) was answered well in many cases though a number of students confused the role of the internal auditor with that of the external one. Many spent valuable time talking about a "true and fair view" and made reference to a "qualified" and "unqualified" which were all incorrect in the context of the set task. The important point was to indicate that an internal auditor is normally employed within the company in question to check that accounting processes and procedures are correctly being followed, ensuring that when the external auditor does come to analyse the financial statements, everything is in order before the accounts are released.

Part b) caused problems for the number of candidates who wrongly associated the issues given with undetected trial balance errors and responded accordingly, or who identified how the double-entry was apparently incorrect and advised how it should have happened. Some stated the transaction was an error of principle, commission, omission, etc., which the question did not require. In fact, it was a task involving activities which in effect contradicted the 'rules' of bookkeeping and accounting and asking for clarification as to how long-accepted accounting principles had been breached. For instance, if payment of rent was received from a client for the short term use of a building, this was non-trading income to the firm, not payment for buying the asset, nor sales revenue. Acquiring a colour photocopier was acquisition of a non-current asset for long-term use in the business, not the purchase of inventory (goods for resale), and so on.

The supplementary task asked about the effect upon Gross Profit and Net Profit of correcting the issue. In correcting the issue regarding receipt of rent, it would show on the Income Statement as Other Additional Income (so below Gross Profit and above Expenses) thereby improving Net Profit by that figure. Correction by removing the photocopier cost from Purchases would reduce the Cost of Sales, therefore increasing Gross Profit, and so on. Any reasonable presentation starting with the draft Gross Profit and Net Profit figures to show the impact of each correction in turn would be acceptable, and an example is given as a suggested response. Again, another reminder to do what the task requires – not all responses started with the draft figures, nor gave end figures for both levels of profit.

Part c) was answered reasonably well though there was frequent confusion with regard to what a 'true and fair view' actually means in practice: "true" (the accounts are free from errors or omissions) and "fair" (the accounts are free from bias), consequently, the accounts reflect reality for the organisation from an accounting perspective. These are characteristics that the accounts must possess and directors are responsible for bringing that about. External auditors therefore do not 'give' that to the accounts, but certify it is there already as part of their inspection. Most candidates secured some marks, even where explanations were a little unclear.

4) a) Describe the major practical differences between a cash budget and other budgets within a business's budgetary control system. (4 marks)

b) The following information relates to Whyzee Limited in 2017 and comes from its various budgets, management decisions, activities and expectations during the year:

- It has agreed to buy new machinery in July for £200,000 and a finance arrangement to pay for it in 5 equal monthly instalments, the first due on the date of purchase.
- The machinery attracts a government grant worth 15% of its purchase price, on evidence that the machinery instalments are being made on time. This is expected in 3 equal monthly instalments from August.
- Rent payable for their premises is £24,000 per year, payable quarterly in advance. The next payment is due in July.
- Purchases of Raw Materials are budgeted to be £10,000 per month with a variety of payment terms, but averages out as 40% is paid in the current month and 60% in the month afterwards.
- Other overheads and expenses are budgeted in each month, as follows:
  - Wages of £5,000, payable in the month earned
  - Depreciation of £150 in July, and £450 in each following month, applied in the relevant month
  - Electricity, Water and Gas usage of £1,350 each month settled monthly
  - Administration costs of 5% of each months' receipts from sales, and paid in the following month.
- Cash sales are treated as fully paid at the time of purchase and Whyzee Ltd.'s standard credit term for its customers is full payment by the end of the following month. The pattern of sales is expected to be:

£	May	June	July	August	September	October
<b>Cash Sales</b>	12,000	14,000	16,000	18,000	20,000	22,000
<b>Credit Sales</b>	25,000	26,000	27,000	28,000	29,000	30,000
<b>Monthly Sales</b>	37,000	40,000	43,000	46,000	49,000	52,000

The bank balance on 30 June is budgeted to be £25,000 (in funds). An overdraft fee of £20 is charged when any end-of-month bank balance is overdrawn, and any end-of-month positive bank balance (that is, it is not overdrawn) attracts 1% interest. Bank fees and interest, where arising, are applied in the following month.

**TASK for part b)**

Using the information given above relating to Whyzee Limited, prepare their cash budget for the four months from July to October 2017. (12 marks)

- c) Based upon the scenario and your cash budget in 4b) above, what conclusions can be drawn and therefore what recommendations can be given to Whyzee Limited? (4 marks)

Total 20 marks

All calculations should be presented to the nearest whole £

### **Question aims**

To test candidates' ability to:

- Explain the relationship between budgets and the construction, purposes and process of budgetary control
- Prepare a cash budget
- Interpret a cash budget

### **Suggested grounds for response include:**

- a) Budgets are interrelated and the sales budget is the budget on which the other budgets are based as sales represent the level of activity that is expected for the whole business, particularly if it involves manufacturing. The sales budget can take two forms, namely volume (the number of items within a sales line) or values (the amount of money raised by selling that volume of items).

Sales ambitions must be met from holding adequate goods inventories at the appropriate time, so sales demands inform a manufacturing or production budget. Since it is cost price of individual materials, labour, overheads, etc., rather than selling price, that is relevant to this, volumes relate to the number of items required to meet sales ambitions, and values relate to the costs of production.

The cash budget is concerned with the actual time that cash is paid out or received, not with the time period the original activity giving rise to the payment or receipt relates, and is compiled on the basis of the information contained in all the other budgets indicated above. For instance, the sales budget suggests incoming cash flow from sales revenue so the cash budget highlights what cash is expected and when. The production budget indicates the cash requirement for the business' operating costs, and settlement of suppliers' invoices, etc., so indicates the timing and value of cash outflows. The difference between overall cash inflow and cash outflow represents surplus funds, upon which returns can be made on investment, or unsatisfied cash needs for which sources of finance or incoming investment must satisfy.

b) Whyzee Ltd's Cash budget for four months July – October 2017

HEADING including:	<b>Cash Budget/Whyzee Limited/for July-Oct 2017</b>				
	<b>June</b>	<b>July</b>	<b>August</b>	<b>Sept</b>	<b>October</b>
	£	£	£	£	£
<b>Receipts</b>					
from Cash Sales	14,000.00	16,000.00	18,000.00	20,000.00	22,000.00
from Trade Receivables	25,000.00	26,000.00	27,000.00	28,000.00	29,000.00
from Government Grants	0.00	0.00	10,000.00	10,000.00	10,000.00
from Bank Interest	0.00	250.00	29.50	0.00	0.00
<b>Total Receipts (A)</b>		42,250.00	55,029.50	58,000.00	61,000.00
<b>Payments</b>					
Machinery Finance	0.00	40,000.00	40,000.00	40,000.00	40,000.00
Rent for Premises	0.00	6,000.00	0.00	0.00	6,000.00
Raw Materials' Purchases	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Other Overheads:					
Wages	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Electricity, Water, Gas	1,350.00	1,350.00	1,350.00	1,350.00	1,350.00
Administration		1,950.00	2,100.00	2,250.00	2,400.00
Overdraft Fees		0.00	0.00	20.00	20.00
<b>Total Payments (B)</b>		64,300.00	58,450.00	58,620.00	64,770.00
Opening Balance		25,000.00	2,950.00	(470.50)	(1,090.50)
Net Cash Flow (A-B)		(22,050.00)	(3,420.50)	(620.00)	(3,770.00)
Closing Balance	25,000.00	2,950.00	(470.50)	(1,090.50)	(4,860.50)

c) Conclusions and recommendations may include:

- As it stands in the absence of other information, Whyzee Ltd are in a cash flow downward spiral, so they must identify new sources of investment/finance, but must also attend to the reasons why cash outflow is outstripping cash inflow.
- At present, the bank will need to support this haemorrhage of cash by a rapidly growing overdraft, although someone evidently thinks that the organisation is creditworthy enough to grant the investment finance for the machinery [*Note: finance may be briefly and appropriately mentioned, but detailed and extended discussion is now beyond the current syllabus*].
- That said, there is a heavy financial burden in the short term from the new machinery, but it may be that such an investment is exactly what will be needed to bring about a change in performance for the organisation by say opening a new or upgraded product line.
- It is therefore likely that if the machinery acquisition is part of a controlled renewal/expansion and is properly budgeted across the whole organisation, Whyzee Ltd actually has an astute management which is fully in control of events.

**Max 20 marks**

*Part a) required mention of the major practical differences between a cash budget and other budgets within the system. Candidates comparing one to the others (whether they forecast cash flows, or anticipated volumes of production, or expected sales income, etc.) and showing major differences received all available marks. A common error here would be to discuss cash budgets in detail with little or no reference to any other budgets (so effectively half a response), or to focus on the budget system and how they feed into one another from a planning viewpoint (not a response to the set task).*

*Part b) as ever caused problems for many students. Aside from those well-scoring responses where candidates produced orderly frameworks to show anticipated incoming cash flow streams one by one with activity under the appropriate month, followed by a similar treatment of anticipated outgoing cash flow streams, concluding with a monthly summary of net cash flow and its impact upon bank account balances, format, structure and presentation was a general issue. In that cash flow is mapped in the cash budget, it is the anticipated cash income, not the volume of sales revenue, which should be shown. Given that the scenario simulates monthly sales revenue being paid for over two or more months (as is reality) with incoming cash flow allocated accordingly, the principle is that goods to be sold in January and to be paid for in March will appear in March's incoming cash receipts. Therefore where Credit Sales Revenue was confused with its respective cash flow, this lead to incorrect cash receipts' figures.*

*Those candidates presenting their work well (a likely consequence of persevering with exercises, practice and revision) were also likely to deal with the more complex elements of the task more effectively. Calculation of the administration fees presented challenges as did the computation of interest on bank funds and for overdraft fees. However, of greatest and worrying concern was that the majority of candidates included depreciation in the budget as a cash item.*

*In Part c) the required commentary read well in a good number of cases, although whilst most candidates pointed out that the purchase of the non-current asset was an immediate and major cash flow problem, better responses focussed upon how to deal with the consequences of that, so contingency plans need to be made now. Best responses noted the increase in sales projections and the fact that the machine would be paid for by November, so an overdraft extension was appropriate meanwhile which would be cleared with the cash from increased sales revenue.*

*Some creatively recommended cancelling the machine or financing it differently, ideas which effectively amend the scenario given to candidates to work with, so in this subject, unless directed by the task or scenario, would always be less powerful responses. In this scenario, the significant subsidy by way of a government grant would have been lost also.*

5. a) Explain the Accruals (or Matching) Concept in relation to the financial accounts and statements of a business. (4 marks)
- b) A business information report has been obtained on Lucrative Prospects Ltd, a new sales lead. Your Sales Manager is naturally keen that credit terms can be agreed as soon as possible, and is very interested to learn what the data in the report means and how it helps with the account opening decision.

**TASKS for part b)**

Explain the usefulness of each of the following ratios in reviewing the performance of a business:

- i) Current Ratio (2 marks)
- ii) Acid Test Ratio (2 marks)
- iii) Receivables Collection Period (2 marks)
- iv) Payables Settlement Period (2 marks)
- v) Inventory Turnover Rate (2 marks)
- c) The following data has been extracted from the business information report for Lucrative Prospects Ltd. Analyse the changes for each between 2015 and 2016, showing the potential impact upon Lucrative Prospects Ltd in general and making reference to its management of its working capital in particular. (6 marks)

<b>Business Information Report (extract) on Lucrative Prospects Limited</b>		
<b>Ratio Calculated</b>	<b>2016</b>	<b>2015</b>
Current Ratio	2.5:1	2.2:1
Acid Test Ratio	0.7:1	1.1:1
Receivables Collection Period	49.5 days	33.3 days
Payables Settlement Period	24.8 days	28.7 days
Inventory Turnover Rate	80.7 days	63.5 days

Total 20 marks

**Question aims**

To test candidates' ability to:

- Explain the recognised concepts which underpin the principles of accounting and bookkeeping
- Describe the usefulness of ratios in reviewing business performance
- Use ratio data to analyse business performance

**Suggested grounds for response include:**

- a) Accruals concept:
- The accruals or matching concept requires that the costs of an activity must be matched to the same time period that the activity occurred in. Therefore, sales revenue for an item and expenses associated with that sale (such as the costs of sale) must be included in the financial statements of the same accounting period.
  - As a consequence, financial statements are drawn up on the basis of when the activity and its associated costs took place, rather than when the cash for either or both was paid. This concept allows for the consistent calculation of profit.
  - Any payment made in advance or unpaid expense at year end needs to be adjusted in the financial statements to ensure that the accounting records reflect what actually happened in the accounting year.
  - So, the income statement for instance should always include the amount of the expenses that have been incurred as a consequence of a particular sale and the expenditure associated with running the business for the year, whether or not payment has taken place.
- b) **Current Ratio** indicates whether a firm has sufficient current assets to cover its current liabilities. It is an indication of the firm's solvency and levels of working capital. Each type of business will have a different ratio, but as a general rule 2.0:1 would be considered safe, where the firm has twice as many current assets as the demands upon it, the current liabilities.

However, a large retailer might have a much lower ratio than this, and indeed could be near negative, whereas a large construction company would have a higher ratio than 2.0:1 because of the different timescales and volumes of inventory. The retailer will generate cash quickly, but there will be a considerable time gap between the construction company buying materials and resources and the final payment for the building, so it needs a higher level of working capital.

**Acid Test Ratio** follows the same logic as the Current Ratio, but removes the influence of the firm's inventories, which are excluded. This is a more critical measure of the firm's liquidity, as only the liquid (cash or near cash) assets are considered. Inventory as the least liquid of the current assets, still has to be sold and cash may not be received for it for several weeks. Consequently, 1.0:1 is the normal minimum level unless constant incoming cash flow, such as that enjoyed by a large supermarket retailer, can support a lower short-term level.

**Receivables Collection Period** is the average number of days taken to collect payment from credit customers/trade receivables, and when compared with the credit terms given, is a measure of the efficiency of credit control. Most firms give 30 days' trade credit, but it varies for different trade sectors – some giving 60 or 90 days, or others less than 30 days. Efficient management of receivables suggests that payment from receivables is collected faster than settlement made to payables.

Consequences of a high RCP include the need for a new (or extension of an existing) overdraft, delay to payments for suppliers of goods and services through lack of incoming cash flow, finance costs on consequential borrowings and bad debt through lack of prompt collections, which also impacts upon profitability.

**Payables Settlement Period** is the average number of days taken to pay suppliers, and should be compared with the credit terms given and the speed of collecting receivables. Efficient management of payables' settlement is that it should be longer than the time taken to collect payment from those receivables. Firms should take full use of the credit period given, but if it takes too long and is slow in making payments, this can have consequences as suppliers may withdraw credit, ask for cash with order, put orders on 'stop', refuse to supply, and take legal action for unpaid sums. Any or all of these actions will affect the firm's credit rating, and it may have difficulty in obtaining credit in the future from other suppliers. This will have a significant adverse effect on its trading and cash operating cycles.

**Inventory Turnover Period** is the average number of days inventory is held, and it indicates the length of time it takes for inventory to be sold. This period will depend on the type of product and business, so needs to be referenced to the industry involved. A greengrocer will have a very high rate as the goods sold have a short shelf life, and a furniture store will have a low rate as goods have a long shelf life. However this can also depend on the sector. For example, clothes stores selling fashion clothing would want a high rate. Although the goods have a long shelf life, once they go out of fashion they may be unable to sell them and they may be classed as obsolete. So, efficient inventory control policies should be in place to ensure that there is sufficient to be used in production to meet sales demand. Overstocking means that money is tied up unnecessarily in unsold inventory and can lead to loss of sales and customers. The quicker inventory is sold, the faster cash is generated.

Deterioration in the rate of inventory turnover is indicated by an increase in the number of days it is held, caused by a drop in sales demand, slow moving or obsolete items, inefficient or poor purchasing, and over-ordering, inefficiencies in production, resulting in a build-up of raw materials and work-in-progress.

Above are guidelines only. There may be many variations on the responses and marks will be awarded where relevant.

c) Answers may include:

- **Current ratio** has increased indicating that the company has more current assets to meet its current liabilities than in previous years and hence better liquidity. It could mean though that inventories or trade receivables have increased rather than bank funds or cash itself, so it does not necessarily mean an improvement in liquidity.
- **Acid test ratio** has moved adversely which means that there are less current assets that are quickly convertible into cash to meet current liabilities which means decreased liquidity. The fact that the current ratio has increased during the period could suggest that there has been an increase in inventories during the period. Also, because the acid test includes receivables it might be hiding further liquidity problems.
- **Receivables collection period** has worsened as it now takes an average 16 days longer to collect debts than it did last year. This might indicate liquidity problems of XYZ's customers or a failure to chase up debts as and when they fall due, which points to poor management of working capital.
- **Payables settlement period** has also fallen over the period. This might be due to the fact that XYZ suppliers are pushing for payment far quicker which might indicate suspicions about the liquidity of the company. It might though point to the fact that management of XYZ have failed to make full use of the credit facilities on offer.

- **Inventory turnover rate** has worsened as it now takes 17 days longer to sell inventory than it did in 2015. This could point to the fact that there are problems with stock control or the quality of the product on sale.

Above are guidelines only. There may be many variations on the responses and marks will be awarded for coverage and relevance.

**Total 20 marks**

*Here, Part a) asks specifically about one of the concepts that underpin acceptable accounting practices, the Accruals or Matching Concept, so the focus of anticipated responses was the concept itself, its characteristics, specific reference to costs and revenues appearing in different accounting periods, how it works, what it ensures, and so on, all of which would be given credit to the maximum available. Whilst many candidates made central reference to accrued payables/'accruals' and prepaid receivables/'prepayments', and credit was given for this, these were examples of how the concept is seen in practice, rather than definitions and characteristics of the concept itself. Most candidates however had a fair idea of the nature of this important accounting concept and obtained some marks.*

*For Part b), there were some very good responses with candidates clearly displaying a high level of knowledge and understanding of this very important part of the syllabus. However, other responses consisted of discussions regarding the components of the named ratios, typical formulae for each, descriptively verbalising the formulae or ratio name (e.g. the Receivables Collection Period is how long it takes on average for receivables to be collected), and so on, none of which were central to the set task, nor showed the usefulness of knowing that ratio. Best responses and maximum marks were awarded to responses which addressed the task and showed, as required, how useful it is to reviewing the performance of a business having knowledge of each given ratio is. For instance, the usefulness of the Current Ratio and Acid Test might be whether the organisation had enough liquid (cash) assets to cover its bills (current liabilities) as and when they fall due, to what extent the need to sell inventory influences that, what an ideal ratio might look like, or how the impact of a sudden cash demand (say, a recalled overdraft) would be covered by available current assets, or an explanation from the viewpoint of a credit manager. Whilst not all of this is required in a single response to obtain maximum credit, to explain the simple relationship that the Current Ratio compares current assets with current liabilities is not showing that ratio's usefulness in reviewing a business's performance.*

*Candidates could, in Part c) obtain the maximum marks available by highlighting a selection of issues and conclusions that could be drawn from study of the given data and then deducing the impact upon working capital of the performance of the business between the two years' results. Pleasingly, several responses did that. Where a response was weaker, it is likely to have just explained the ratios in both cases with little or no analysis of what might have caused the changes, or what the possible consequences of the changes might be. Sometimes there was some confusion between receivables and payables which is worrying, as was the misreading of the given table reversing the two years' results (so the Current Ratio deteriorated over the two years). However, other candidates obtained further credit to the maximum available by using the given data to calculate the Cash Operating Cycle for each year and (importantly) comment on those results.*

*However, there are good signs of improvement in successive examinations to show that candidate cohorts are getting to grips with narrative tasks presented to them. This is a pleasing development as interpretation of accounts data is just as important as accurate calculations.*

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