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FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**



ACCOUNTING

<p>Paper 0452/01</p> <p>Multiple Choice</p>

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	21	D
2	A	22	D
3	B	23	C
4	D	24	B
5	C	25	B
6	A	26	A
7	C	27	B
8	D	28	A
9	C	29	B
10	A	30	A
11	C	31	C
12	B	32	D
13	B	33	D
14	D	34	D
15	C	35	A
16	C	36	B
17	A	37	C
18	C	38	B
19	D	39	B
20	C	40	B

General comments

This was the tenth sitting of this paper.

There were 5 348 candidates (compared to 4 878 in November 2004). The mean mark was 22.9 out of 40 (compared to 23.6 in November 2004). The standard deviation was 7.4 (compared to 7.1 in November 2004).

Judged against accessibility of 60%-90%, two items were slightly too easy and 21 items were regarded as too difficult.

All the items were within the Core Syllabus.

Comments on specific items**Items 5, 7, 12, 29, 32, 37 and 39**

The correct key was selected by 59%, 49%, 56%, 33%, 42%, 50% and 59% respectively. In all these items, the selection of the other options indicated a substantial degree of guesswork.

Item 9

Only 41% were able to select the correct key, **C**. 48% did not appreciate that the purchases figure would increase when the error was corrected.

Item 10

Whilst the key was selected by 46%, option **C** was selected by 35%. The stem mentioned goods purchased for cash, so candidates should have realised that this must affect the cash book.

Item 14

The key, **D**, was selected by only 39%. The fact that option **A** was selected by 34% and the other options attracted a total of 27% may indicate that many candidates have little understanding of the main ledgers.

Item 15

Only 38% correctly identified the key, **C**. 31% chose option **A** and 29% chose option **B**. Many candidates are obviously unsure about the type of balance which would appear on carriage inwards and outwards accounts.

Item 18

41% chose the key, **C**, but 42% incorrectly selected option **B**. This represented the balance remaining at the month-end, rather than the amount to restore the imprest. This may indicate that a number of candidates did not read the item carefully.

Item 20

Whilst 40% chose the key, **C**, the numbers selecting options **A** and **B** indicate either a complete lack of understanding of the topic or a failure to read the stem carefully.

Item 22

This item required a thorough understanding of the effect of prepayments on the net profit and current assets. Only 39% correctly selected the key, **D**.

Item 23

This should have been a very easy item. It was disappointing that only 35% were able to select the correct key, **C**.

Item 30

45% correctly selected the key, **A**. The number selecting option **C** was very disappointing. Candidates should appreciate that a credit balance on a current account is part of the amount due to the partner, and, as such, appears in the capital section.

Item 31

This should have been a relatively easy calculation based on the appropriation of profits between partners and it was disappointing to find such a large proportion of candidates selecting options **B** and **D** rather than the key, **C**.

Item 36

Only 22% correctly chose the key, **B**. The 66% selecting option **C** obviously failed to appreciate that this transaction would result in one current asset increasing and one decreasing.

Item 40

It was very disappointing to find that 46% thought that business **D** (which had the largest gross and net profits as percentages of sales) was the most efficient in keeping overheads to a minimum. Only 29% were able to select the key, **B**.

<p>Paper 0452/02</p>

<p>Paper 2</p>

General comments

Candidates generally performed well, and there were many good scripts. There are, however, some specific areas of weakness as set out below and Centres should pay attention to these.

Most of the short questions in **Question 1** were well answered but some specific parts gave difficulty to many candidates, in some cases where they were required to explain a concept in their own words. **Question 2 (a)** and **(b)** were well answered although some candidates missed an important point in part **(b)**. Part **(c)** was not answered well at all. **Question 3 (a)** and **(b)** were very well attempted with many candidates gaining almost full marks, but answers to part **(c)** were very weak. **Question 4** was very poorly answered overall which was surprising as a similar question was set only one year ago. **Question 5** was very well answered and many candidates did gain all the available marks for this question.

Most candidates completed all the questions and there did not seem to be evidence of time pressure. A large number of candidates appeared to have allocated time to check their work and often made alterations to their original answers, not always correctly.

Comments on specific questions**Question 1**

This consisted, as in previous sessions, of a number of short answer questions from across the syllabus and was quite well answered although difficulties were found with questions **(x)**, **(y)** and **(z)**.

- (a)** Most candidates knew that a cheque received from a customer should be recorded in the cash book but a surprising number answered with the sales journal and others offered a variety of other incorrect books of prime entry.
- (b)** Most candidates knew what trade discount is but a substantial number struggled to explain the concept in their own words. The key point was that trade discount is a reduction in price given to a purchaser to encourage bulk purchases or is given to a regular customer to encourage repeat orders. Candidates who expressed these principles earned the mark.
- (c)** Trade creditors appear under current liabilities.
- (d)** The system of petty cash where the cashier makes up the balance to a fixed amount each month is known as the imprest system.

- (e) Candidates had great difficulty explaining the concept of net realisable value. Many answered with the cost less selling expenses, but the question was seeking the concept of the net amount or value for which the stock could be sold, regardless of its original cost.
- (f)(i) Carriage inwards is transferred to the Trading account.
- (ii) Carriage outwards is transferred to the Profit and Loss account.
- (g) Many candidates did well on this question, but some thought new tyres were capital and there was some evidence of a number of random answers. The correct answers are shown in the table:

	Capital expenditure	Revenue expenditure
Purchase of motor van	√	
New tyres for motor van		√
Painting business name on motor van	√	
Cost of oil for motor van engine		√

- (h) The question specifically asked candidates to show their workings to calculate the return on capital employed and marks were available for each element in the calculation. Many candidates just gave figures, often without any explanation, so that it was not possible to see from where they had been derived.

The return on capital employed is found by the formula Net profit/Capital.

In this case Net profit = Gross profit (\$45 000) – expenses (\$30 000) = \$15 000, and capital at 31 August 2005 was \$150 000 so the return in capital employed was \$15 000/\$150 000 = 10%.

- (i) Most candidates correctly inserted the missing words to give the definition of working capital as **Current** assets less **Current** liabilities.

Question 2

This question required candidates to enter some missing words and figures in a sales invoice received by a purchaser and in the purchaser's cash book, and then to write up the supplier's account in the purchaser's ledger. The first part was done well, but many candidates failed to notice that Pieter Burg did not pay the supplier until 30 October for goods invoiced on 25 September and therefore did not qualify for the 3% cash discount for payment within 14 days. These candidates spent time calculating the discount and showing the purchases ledger account with incorrect entries. Candidates should also note that where ledger accounts are requested attention to detail such as dates, precise narrative and accurate layout with balances brought and carried down is usually required to earn the available marks.

- (a) The correct entries in the sales invoice are:

- (i) 3 000 (items)
- (ii) \$100.00
- (iii) \$1 300.00
- (iv) Cash discount or Discount allowed

- (b) The correct entries in the cash book are:

- (i) \$75.00
- (ii) \$2 425.00
- (iii) nil
- (iv) \$1 300.00

(c) The supplier's account in the purchases ledger should be:

General Supply Company Account

2005			2005		
5 September	Bank	2 452.00	1 September	Balance b/d	2 500.00
	Discount received	75.00	25 September	Purchases	1 300.00
30 September	Balance c/d	<u>1 300.00</u>			<u>3 800.00</u>
		<u>3 800.00</u>			
30 October	Bank	<u>1 300.00</u>	1 October	Balance b/d	<u>1 300.00</u>

A running balance layout is acceptable.

Question 3

This question required the preparation of a Trading and Profit and Loss account from information given, and then asked for a calculation of the trader's gross profit percentage and his net profit percentage from the accounts prepared. The candidate was then asked to comment on the reasons for the difference in gross profit percentage between the trader in the question and another trader.

The preparation of the Trading and Profit and Loss account was done well, with many candidates earning all but a few of the available marks. Common areas of difficulty included the treatment of the omitted purchase invoices, where many wrongly adjusted both purchases and closing stock; the accrued motor expenses, which were often deducted instead of being added to the expenses; and great confusion about the depreciation charged for the year, which was often wrongly added to (or deducted from) the net book value which was then included as an expense. A surprising number of candidates found difficulty in selecting the correct items to include in the expenses in the Profit and Loss account, and sometimes entered the wrong amount against their narrative, having picked up the amount from the line above or below the correct line.

(a) The correct answer is:

Smith

Trading and Profit and Loss account for the year ended 30 June 2005

	\$	\$
Sales		102 000
Opening stock	8 400	
Purchases (including omitted invoices) (75 600 + 4 000)	79 600	
Carriage inwards	<u>700</u>	
	88 700	
less Closing stock	7 100	
Cost of sales		<u>81 600</u>
Gross profit		20 400
Expenses:		
Advertising	400	
Depreciation	700	
General expenses	350	
Insurance	420	
Lighting and heating	600	
Motor expenses (including accrued expenses \$350)	1 120	
Office expenses	280	
Rent	720	
Postage and stationery	180	
Wages and salaries	<u>5 250</u>	
		<u>10 150</u>
Net profit		<u>10 250</u>

(b) Gross profit percentage = $\frac{\text{gross profit}}{\text{sales}}$
 $= \frac{20\,400}{102\,000} \times 100$
 $= 20.00\%$

Net profit percentage = $\frac{\text{net profit}}{\text{sales}}$
 $= \frac{10\,250}{102\,000} \times 100$
 $= 10.05\%$

- (c) The answer to this part of the question must give reasons for an increased gross profit percentage, such as higher prices than the other trader, lower purchasing costs, taking advantage of trade discount, or lower carriage inwards. It is not sufficient just to refer to greater sales or an increased (or decreased) closing stock, or to state a lower cost of sales without explaining the reason.

A large number of candidates answered by reference to sales, cost of sales and stock and did not earn the available marks.

Question 4

This question was very poorly answered and it appears that many candidates, and possibly some Centres, find the whole subject of providing for depreciation of fixed assets very difficult. Many attempts at answers showed that candidates were confused about methods of calculation, and found remembering the necessary formulas or rules difficult, and were even less confident about making the correct entries in the Provision for depreciation account. There were many examples of the cost of the asset being introduced, or various written down values of the asset, both incorrect, and a surprising number of candidates offered answers more appropriate to the disposal of the fixed asset although no disposal had taken place.

This performance was disappointing in an important area of principle.

- (a) The first part of the question required candidates to explain the reason for charging depreciation in the Profit and Loss account. The expected answer was to spread the cost of a fixed asset over its expected useful life, but many answers referred to the need not to understate or overstate profits, to obtain a correct profit for the period, or to comply with a number of accounting concepts. Relevant concepts would have been prudence or matching, but others were offered.

This part was very poorly done and showed a fundamental lack of understanding of the principle underlying the need to charge depreciation.

- (b) The calculation of the depreciation to be charged on the printing press was carried out reasonably, with most candidates realising the difference between the two methods of calculation. However, many then incorrectly showed the written down value in the table as the answer and lost the marks they would otherwise have gained.

The correct answers are:

Straight line method: Depreciation = $\frac{\text{Cost less scrap value}}{\text{years of useful life}}$
 $= \frac{\$40\,000 - \$4\,000}{10}$
 $= \underline{\$3\,600 \text{ per annum}}$

and this remains constant for each of the three years to 30 September 2005, 2006 and 2007.

Reducing balance method: Depreciation = $\text{Cost} \times \text{chosen percentage}$
Year to 30 September 2005
 $= \$40\,000 \times 20\%$
 $= \underline{\$8\,000}$

Depreciation = $\text{Net book value} \times \text{chosen percentage}$
Year to 30 September 2006
 $= (\$40\,000 - \$8\,000) \times 20\%$
 $= \underline{\$6\,400}$

Depreciation = $\text{Net book value} \times \text{chosen percentage}$
Year to 30 September 2007
 $= (\$40\,000 - \$8\,000 - \$6\,400) \times 20\%$
 $= \underline{\$5\,120}$

- (c) The Provision for Depreciation of machinery account is credited with the amount of the provision charged to the Profit and Loss account each year and the balance carries forward as an increasing figure until such time as the asset is sold. The entry in the Provision account each year is therefore the amount charged to the Profit and Loss account for that year.

Some ledgers contain a Depreciation account, and the Depreciation account is debited, and the Provision account credited with the annual charge. The amount on the Depreciation account is then transferred to the Profit and Loss account at the end of the period.

The Provision account should therefore have been prepared as follows:

Provision for depreciation of machinery account

\$	\$
30 September 2005 Balance c/d <u>8 000</u>	30 September 2005 Profit and Loss account <u>8 000</u>
	1 October 2005 Balance b/d 8 000
30 September 2006 Balance c/d <u>14 400</u>	30 September 2006 Profit and Loss account <u>6 400</u>
<u>14 400</u>	<u>14 400</u>
	1 October 2006 Balance b/d 14 400
30 September 2007 Balance c/d <u>19 520</u>	30 September 2007 Profit and Loss account <u>5 120</u>
<u>19 520</u>	<u>19 520</u>
	1 October 2007 Balance b/d 19 520

Question 5

Part (a) of this question required candidates to prepare a Balance Sheet from information presented in a Trial Balance after the net profit for the year had been adjusted. Most candidates showed the correct layout of a Balance Sheet, with headings for Fixed assets, Current assets, Current liabilities, Long term liabilities and Capital.

Common errors were not to show the cost and accumulated depreciation but just the net book value of the fixed assets, including the bank loan as a current asset, or showing it under capital. Some candidates confused debtors and creditors, and accruals and prepayments but this part of the question was done very well.

An acceptable layout would be:

Anvil
Balance Sheet at 31 August 2005

Fixed Assets	Cost \$	Depreciation \$	Net book value \$
Plant and equipment	45 000	12 000	33 000
Motor cars	<u>22 000</u>	<u>5 400</u>	<u>16 600</u>
	<u>67 000</u>	<u>17 400</u>	<u>49 600</u>
Current assets			
Stock		16 000	
Debtors		52 000	
Prepayments		1 800	
Bank and cash		<u>22 400</u>	
		<u>92 200</u>	
less : current liabilities			
Accruals	3 300		
Creditors	<u>32 000</u>		
		<u>35 300</u>	
Net current assets (working capital)			<u>56 900</u>
			106 500
Long term liability – bank loan repayable 2009			<u>15 000</u>
			<u>91 500</u>
Capital			
Balance at 1 September 2004		91 000	
Add :net profit		<u>30 500</u>	
		121 500	
less : drawings		<u>30 000</u>	
			<u>91 500</u>

Part (b) required the calculation of two balance sheet ratios, the current ratio and the quick ratio. Most candidates knew the two formulas required and were able to apply the formula using their answer to part (a) to obtain a correct answer. However again the question specifically required the calculation to two decimal places and many candidates lost marks by rounding their answer or not being sufficiently accurate or precise. Candidates should also note that where a question asks for a ratio, that is the format they should use in preparing their answer. Just giving a number without its ratio, or with a wrong description such as %, will not earn marks.

The calculations are:

$$\begin{aligned}
 \text{(i) Current ratio} &= \frac{\text{Bank} + \text{Debtors} + \text{Prepayments} + \text{Stock}}{\text{Accruals} + \text{Creditors}} :1 \\
 &= \frac{22\,400 + 52\,000 + 1\,800 + 16\,000}{3\,300 + 32\,000} :1 \\
 &= 2.61 : 1 \\
 \text{(ii) Quick ratio} &= \frac{\text{Bank} + \text{Debtors} + \text{Prepayments}}{\text{Accruals} + \text{Creditors}} :1 \\
 &= \frac{22\,400 + 52\,000 + 1\,800}{3\,300 + 32\,000} :1 \\
 &= 2.16 : 1
 \end{aligned}$$

Paper 0452/03

Paper 3

General comments

This structured examination paper was designed to discriminate between candidates obtaining Grades A to C. It is recommended that only those candidates who have studied the Extended Curriculum and who are expected to achieve at least a Grade C should be entered for this paper.

The questions were all compulsory and were set mainly on Extended Curriculum topics. As usual, the paper was designed so that some of the marks were relatively easy to earn, but other marks could only be earned by those candidates who demonstrated a greater degree of knowledge and understanding.

It was pleasing to find that many candidates were able to earn high marks as their work showed a high degree of competence. Other candidates would have benefited from further study before attempting an examination of this level.

Some marks were lost because of lack of attention to detail. In ledger accounts entries were undated or had inappropriate descriptions and balances were not always brought down. The use of unsuitable abbreviations also resulted in the loss of marks. For example, "BBD" is not an appropriate description for a balance brought down; "OS" is not an appropriate description for "opening stock".

Candidates are reminded of the need to read each question very carefully before attempting an answer. Some candidates presented factually accurate answers, but were able to gain no marks as the answers did not relate to the questions being asked. This is especially important in theory questions.

Comments on specific questions**Question 1**

This question concerned ledger accounts including year-end adjustments for accrued wages and provision for doubtful debts, together with some related theory questions. The ledger entries were something with which the majority of candidates were familiar. There were many correct answers, but some candidates seemed to be confused.

- (a) Using given data, candidates were required to write up a ledger account for the expense of wages. Whilst there were many excellent answers, others were rather poor. Some candidates lost marks because of the lack of dates and failure to bring down the closing balance. The use of inappropriate descriptions also resulted in marks being lost. It is not considered appropriate to simply put "B" (or "BBD") or "unpaid" for the balance.
- (b) Candidates were required to state two accounting principles which are applied when maintaining a provision for doubtful debts. The majority of candidates correctly stated the principle of prudence. Some also correctly suggested the principle of matching. Common incorrect responses included the principle of realisation.
- (c) A provision for doubtful debts account had to be prepared from given data. A large number of candidates found this section of the question difficult. Many candidates incorrectly included the actual debtors within the provision account and there were a number of completely reversed accounts. Dates and suitable descriptions were also lacking in some cases. It is obvious that many candidates would benefit from further study of this topic.
- (d) Two ways in which a trader could decide on the amount of his provision for doubtful debts were required. Many were able to offer at least one acceptable answer. Others suggested a provision based on the *number* of debtors (rather than the total amount owed), or a provision calculated as a percentage of sales. Some simply suggested that a certain percentage could be used, but failed to say on what the percentage should be calculated. Some candidates clearly had not read the question carefully and they described two methods of depreciation.

- (e) The effect on the net profit and current assets if a bad debt was not written off had to be explained. The majority of candidates were able to identify that both the net profit and the current assets would be overstated, but some had difficulty in explaining the reasons for this.

In this type of question it is important that candidates make it clear which of the three options they have selected.

Question 2

This question was based on the topic of departmental final accounts together with a section on the rate of stock turnover. It was pleasing to find many candidates gaining high marks for this question.

- (a) Candidates were required to give two reasons why a trader would find it useful to know the results of each department of his business separately. It was pleasing to see that most candidates were able to give at least one acceptable reason.
- (b) Two ways in which a trader could apportion general expenses between the departments were required. Acceptable answers included in proportion to floor area and in proportion to sales. Many candidates gained at least one of the two marks available. A common incorrect answer was that the expenses could be shared in proportion to the profit of each department.
- (c) A Departmental Trading and Profit and Loss Account was required. It was very pleasing to find that the majority of candidates were able to earn high marks on this section of the question. The treatment of carriage inwards and returns inwards caused problems for some candidates. Other candidates lost marks through careless arithmetical errors and failure to label gross and net profits. In some cases the presentation could have been improved by the use of two columns rather than one for each department.

Only a very small number of candidates failed to follow the instruction to prepare columnar final accounts. Two separate Trading and Profit and Loss Accounts could not be awarded marks.

- (d) The majority of candidates were able to correctly calculate the rate of stock turnover for each department of a business. A few lost marks by failing to give their answer correct to two decimal places. A number of candidates used the sales figures rather than the cost of sales figures in their calculation. Candidates are reminded that it is important to indicate that the answer to a rate of stock turnover calculation represents a number of times in the period: it is not an amount of money or a percentage.
- (e) Candidates were required to suggest two reasons why one department had a lower rate of stock turnover than the other department. Only a very few candidates were able to offer acceptable reasons. The fact that one department had sales returns or had more expenses will not affect the rate of stock turnover. Only a small number of candidates referred to the type of goods being sold in each department: the price and the demand for an article will obviously have an effect on the rate of stock turnover.

Question 3

This was on the topic of single entry accounts. Candidates were required to prepare either a Statement of Affairs or a Balance Sheet and then to calculate the net profit for the year. It was very pleasing to find that many candidates were able to earn high marks on this question.

- (a) A list of assets and liabilities and information about annual depreciation and the creation of a provision for doubtful debts was provided. Candidates were required to prepare a Statement of Affairs or a Balance Sheet and thus find the trader's capital.

The revaluation of the equipment caused some problems. Some careless errors were evident such as adding the provision for doubtful debts to the debtors figure and deducting the working capital from the fixed assets. It was disappointing that many candidates failed to observe the usual practice of putting side headings for the main groups of assets and liabilities. Many candidates who elected to prepare a Balance Sheet in vertical format only showed the first section of the Balance Sheet (fixed and current assets and current liabilities) and omitted the capital section.

- (b) Candidates were provided with the opening capital of the trader, together with details of capital introduced and drawings. Using this information and the capital calculated in part (a), a calculation of the net profit/loss was required.

It was evident that many candidates knew the formula for working out profit/loss from the given information. Some made basic arithmetical errors in the calculation. Others arrived at the correct figure but identified it as a profit rather than a loss.

Question 4

This question consisted of various theoretical questions. The first was concerned with parties interested in the final accounts of a business. The next section was concerned with the quality of information in a set of final accounts. Finally, candidates had to explain the entries in a ledger account.

- (a) Candidates were required to complete a table to show the aspects of a set of final accounts five business people would be especially interested in. Most candidates were able to gain the majority of marks on this section. Some ignored the statement that each person should only appear twice in Column B. A few candidates included interested parties not listed in the question.
- (b) Four ways in which the quality of information in a set of final accounts can be measured were required. The first, reliability, was given as an example and candidates were expected to provide the other three answers – understandability, comparability and relevance.

Only a very small minority of candidates were able to offer any acceptable responses. A list of accounting principles or a list of the main accounting ratios were common incorrect answers.

Candidates are reminded that any topic on the syllabus may be the subject of an examination question and it is important that some study time is devoted to each section of the syllabus.

- (c) An account in the purchases ledger of a trader was presented and candidates were required to explain the entries in that account. This should have been a relatively straightforward question. Many candidates lost marks because the explanations were often vague and incomplete. For example "goods were returned" is not an adequate explanation for the transaction on 12 August: it is necessary to explain who returned the goods to whom.

Candidates were also required to state where the double entry for each transaction would be found. Once again there were some incomplete answers. For example "returns account" is not an adequate response for the transaction on 12 August: it is necessary to state that it is the credit of the purchases returns (or returns outwards) account.

The transactions on 4 August relating to the carriage and the transaction on 28 August relating to the transfer to the sales ledger caused the most problems.

Few candidates could provide an adequate explanation of the significance of the \$300 shown at the end of the account. It was not regarded as adequate to state that this was the balance as this was actually stated in the question. Candidates were expected to explain that this was the amount owed by Fischer to Zwink at the end of August.

Question 5

Firstly, candidates were required to state the effect of correcting various errors on the gross and net profits of a partnership business. The next section involved the preparation of journal entries in the books of a partnership. The last section of the question concerned the limitations of accounting statements.

- (a) Candidates were given three errors and were asked to complete a table to show the effect on the gross profit and net profit of correcting these errors.

Although most candidates earned some marks it would appear that a substantial amount of guesswork had taken place. Error number 4 caused the most problems. Only a very few candidates realised that the net profit would decrease by \$200 for the motor vehicle repairs and also increase by \$50 (the amount of depreciation charged).

- (b) Details of three transactions involving the personal accounts of partners were provided and candidates were required to prepare journal entries. It was very disappointing to find that many candidates earned very low marks for this section.

When referring to entries in the personal accounts of partners it is important to identify the particular partner whose account is affected. For example, to indicate that a debit entry is required in the drawings account is inadequate: the drawings account of a particular partner must be specified.

Narratives were required, but many candidates failed to include them. A narrative should follow each individual journal entry: they should not be grouped together at the bottom of the page.

- (c) Candidates were informed that the members of a partnership had invited a third person to join the business and he had been given their latest final accounts. Two limitations of these accounting statements had to be explained.

It was very disappointing to find very few candidates were able to earn the marks available for this section of the question. Many candidates discussed the arrangement between partners regarding interest on capital, drawings, capital contributions and so on. Others referred to the importance of knowing the gross profit, the net profit, the capital of the existing partners etc., which would, of course, actually appear in the accounts provided.

It would appear that a number of candidates had not studied this section of the syllabus. Acceptable answers included a discussion of two of the following:

- the accounts reflect what has happened in the past
- transactions are recorded at their actual cost
- the accounts include only information which can be expressed in monetary terms. The accounts are for one year only.