

PRINCIPLES OF ACCOUNTS

<p>Paper 7110/01 Multiple Choice</p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	C	21	C
2	D	22	D
3	D	23	A
4	B	24	D
5	D	25	A
6	B	26	C
7	D	27	C
8	A	28	C
9	C	29	A
10	B	30	A
11	B	31	A
12	B	32	A
13	D	33	A
14	A	34	A
15	A	35	C
16	B	36	B
17	B	37	D
18	C	38	B
19	C	39	A
20	D	40	C

General comments

There were 19049 candidates (compared to 18919 in November 2005). The mean mark was 19.2 (compared to 20.2 in November 2005) and the standard deviation was 7.5 (compared to 7.0 in November 2005).

Judged against accessibility of 25-80% one item was regarded as too easy and one slightly too easy; two items were regarded as too difficult.

All the items were within the scope of the syllabus.

Comments on specific items

Items 4, 9, 10, 13, 15, 17, 19, 25, 27, 36, and 40

The statistics indicate a substantial degree of guesswork in respect of all these items. These responses may indicate that many candidates have not been introduced to the basic principles of attempting multiple choice items. Candidates are reminded that items on this paper can be selected from all areas of the syllabus.

Items 5, 14, 18, 21, 22, 23 and 34

These items all involved dealing with error in the accounting records. This is clearly a topic which many candidates find extremely difficult. Once again, there appears to be a substantial amount of guesswork.

In **Item 14** 78% realised that the fixed assets would be overstated as a result of including repairs, but only 43% understood that the net profit would be overstated.

In **Item 21** 61% recognised that treating an accrual as a prepayment means that the net profit is overstated. However, only 32% recognised that the effect on the net profit would be double the amount of the original error. Disappointingly, 38% believed that the net profit would be understated.

In **Item 22** the vast majority (86%) knew that entries in the suspense and purchases accounts were required, but only 52% correctly identified the key, D.

In **Item 23** the fact that the office furniture was overstated was correctly identified by 78%. It was disappointing that 34% believed that the gross profit was understated.

Items 2 and 3

These items were concerned with entries in the books of prime entry. It was very surprising that a large number of candidates appeared to have little understanding of this topic.

In **Item 2** only 35% correctly identified the key as D. 72% realised that the entries involved purchases returns and the supplier's account, but over half of these candidates selected Option B, which was the reverse of the correct entries.

In **Item 3** only 42% were able to give the correct key, D. 28% selected Option A which is the entries X (the customer) would make.

Items 6 and 7

Both these items, on the topic of cash books, were expected to be relatively easy.

In **Item 6** the statistics indicate a surprising lack of understanding. Discount columns are memo columns and their totals are transferred to the appropriate ledger accounts on the same side as the column in which they are listed.

In **Item 7** only 52% selected the key, D. 26% appeared to believe that dividend banked involved a withdrawal from the bank.

Item 8

Only 43% correctly identified the key as A. 29% selected Option C after making an incorrect adjustment for the amount not yet deposited.

Item 11

It was expected that this would be a relatively easy item and it was disappointing that only 51% selected the key, B.

Item 16

86% recognised that entries for depreciation did not involve the bank account. It was disappointing that 30% selected Option C which was a reversal of the correct entry.

Item 20

This proved to be a very difficult item. If rent receivable is outstanding at the end of the year this will increase the net profit and will also increase the current assets. The key was D.

Item 24

A contra entry in the sales ledger control account and the purchases ledger control account has the effect of reducing both the debtors and the creditors. The key was D.

Item 30

This proved to be an extremely difficult item. 65% incorrectly believed that the capital would be affected by \$13 000 rather than \$15 000. The total value (\$15 000) which X brought to the business would be credited to his capital account.

Items 32 and 33

The responses to these items were very disappointing. It is possible that not reading the items very carefully may have contributed to these poor statistics.

In **Item 32** the statistics indicate that some candidates may have misread the item as Profit and Loss Appropriation account (rather than Profit and Loss account).

In **Item 33** the statistics indicate that candidates may have misread the item as the amount members owe to a club (rather than the amount the club owes the members).

Item 37

It was pleasing that the majority (78%) knew that the difference in capital must be adjusted for *both* the capital introduced and the drawings. However, only 38% were able to make the correct adjustment.

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Paper 2

General comments

The reliance of candidates on **Question 5**, Trading and Profit and Loss Accounts, was not as pronounced this session. There was a better level of response with regard to the other questions on the paper. It was evident, however, that some Centres had not prepared candidates adequately with regard to ledger accounts, i.e. **Question 1 (a), (b) and (c)** and **Question 4 (d)**. A thorough appreciation of double entry and account preparation is an essential requirement of the syllabus.

Comments on specific questions

Section A

Question 1

- (a) Answers to this question were very poor overall. Very few candidates prepared the account correctly, common errors included, erroneously entering the payment of \$980 on the debt side of the account and carrying down a balance of \$7860 rather than identifying this as the figure to be transferred to the profit and loss account. Narratives were also less than adequate and dates were omitted.
- (b) There was a better response overall to part (b). Although a lack of understanding was evidenced by some candidates reversing the entries.
- (c) Again there was a better response overall to this question. Where some candidates lost marks however, was by failing to use an appropriate narrative or dates.
- (d)(i) Many candidates simply repeated the statement provided in the question, i.e. "Justine Stihl left the country." Only where this was developed with regard to the debt, was a mark awarded. Very few candidates identified that the concept avoids overstating profits and/or asset values. Generally the correct concept was identified.
- (ii) Candidates failed to identify that rent received in advance was income and as a prepayment should be recorded in the following year's profit and loss account. Some candidates having seen the word "rent" assumed this was an expense. It is important that candidates are encouraged to read questions carefully, in order to avoid losing marks. Very few candidates identified that the prepayment represented a liability to the business at the year end date. The identification of the appropriate concept varied between Centres.

Question 2

- (a) Very few candidates correctly calculated the dividends, the exception being preference share dividend of \$6 400. Where correct dividends were shown incorrect narrations were often used. The inclusion of figures relating to authorised and issued capital also evidenced a lack of understanding with regard to the purpose of this account.
- (b) Overall this section was well answered. Common errors included, erroneously identifying "interest" as the reward to shareholders and not being sufficiently specific, e.g. "Preference shares are paid before ordinary shares." The word "paid" is not an adequate explanation.

Question 3

- (a)(i),(ii) and (iii) Generally these sections were well answered by the majority of candidates.
- (b) and (c) Again good answers overall, but, it was evident that candidates from certain Centres had not covered the ratios adequately.
- (d) The majority of candidates identified only one possible effect, i.e. on the cost of sales. Increased stock and lower purchases was rarely seen.
- (e) On the whole there were good answers to this question. The majority of candidates were able to identify appropriate points.

Question 4

- (a)(i) Answers to this question varied between Centres. Many candidates correctly identified appreciation as a reason for not depreciating land. A common failure was not to develop the answer further, e.g. to state that land is a "natural resource" or that land is "not depreciated" was not a sufficient response.
- (ii) The response to this section varied, stock is for "resale", or, is a, "current asset" was often seen. Statements such as "the vehicles had not been used", were not adequate. It was evident that many candidates had not identified the fact from the question that for a garage business, cars represented stock in trade. Again, reading the question carefully would help candidates to understand the requirements better.
- (b)(i) These answers again varied between Centres. Few candidates identified a low cost of the asset and the difficulty in keeping track of, and accounting for them, separately as the reason for utilising the revaluation method. To state that it is an, "easy method", was not adequate.
- (ii) While many candidates correctly answered this section, a number failed to include the opening asset value, given in the question, in the calculation.
- (c) Overall this question was well answered, with full marks being achieved by many candidates. A common failing was to calculate only one year and not two, as per the question's request.
- (d) There was a very poor response to this question. See general comment above.

Question 5

- (a) The majority of candidates, as previously, attempted this question and in general it was answered well. Common errors, however, included:
- A presentation mark being lost, due to incomplete headings.
 - The use of abbreviations is not acceptable, e.g. T P and L or Y/E, were often seen.
 - Erroneously including carriage on sales in the trading account.
 - A failure to adjust for drawing, \$1,300, in the trading account.
 - The interest on loan, \$150, was often omitted in the profit and loss account.
 - An incorrect calculation of the provision for doubtful debts.
- (b) There was a good response overall to this question. However, some common errors included:
- The use of abbreviation of the heading, B/S is not acceptable.
 - A failure to adjust the provision for depreciation.
 - The omission of loan interest; incorrectly adding the loan interest to the loan value.
 - A failure to adjust the capital balance, i.e. deducting the loan value.