PRINCIPLES OF ACCOUNTS

> **Paper 7110/01**
>
> **Multiple Choice**

Question Number	Key	Question Number	Key
1	D	16	B
2	D	17	C
3	C	18	A
4	D	19	B
5	A	20	B
6	A	21	A
7	A	22	B
8	B	23	C
9	C	24	D
10	A	25	B
11	C	26	C
12	A	27	D
13	D	28	A
14	C	29	D
15	A	30	B

General comments

There were 4610 candidates (compared to 4544 in June 2007).

There was a change to the scheme of assessment in 2008, with the question paper containing 30 items rather than 40 items. The mean mark was 19.8 (which is the equivalent of 26.4 under the previous scheme of assessment). The mean in June 2007 was 26.7. The standard deviation was 6.5 (which is equivalent to 8.6 under the previous scheme of assessment), compared to 7.9 in June 2007.

Judged against accessibility of 25-80%, two items proved to be easier than anticipated and two items were slightly easier than expected.

All the items were within the scope of the syllabus.

Candidates are advised to read each item very carefully before selecting an answer.

Comments on specific items

Item 2

The key, D, was correctly selected by 56%. Selection of the other options indicates a substantial degree of guesswork, which should not have been necessary on this relatively straightforward item.

Item 3

Only 51% selected the key, C. Selection of options B and D by 44% indicate that many candidates do not understand the division of the ledger.

Item 4

Surprisingly 18% selected A. This may be because they did not read the item carefully and thought that it referred to a statement of account.

Item 5

It was disappointing to find 27% selecting C and including all the transactions, even though the item clearly asked for the balance on 31 October.

Item 7

81% correctly selected the figure of $960. It was disappointing that only 55% knew that purchases returns would appear as a credit in the ledger.

Item 8

The key, B, was selected by 54%. Option C was selected by 38% who incorrectly added the unpresented cheques and deducted the uncredited deposits.

Item 10

It was very disappointing to find that only 58% understood the basic principle that the balance is updated after every transaction in a three column ledger account.

Item 11

This should have been a relatively easy item. It was expected that the majority of candidates would know that an amount owed by a customer appears as a debit balance in the ledger and as a current asset in the balance sheet.

Item 12

It was very disappointing to find that only 54% could correctly identify a definition of a trial balance. The numbers selecting options A and C would indicate a degree of guesswork which should not have been necessary on such an item.

Item 14

Only 32% selected the key, C. 47% appeared to simply deduct the opening prepayment from the total paid. The insurance for the year should have been calculated by adding the proportion of the amount paid relating to the current year ($2700) to the amount paid the previous year which related to the current year ($600).

Item 19

75% correctly calculated the figure of $11 600, but 19% believed that this represented a loss rather than a profit.

Item 24

The key was selected by 57%. It was anticipated that the majority of candidates would be able to calculate the purchases for the year from the information provided. The statistics indicate a substantial amount of guesswork.

Item 26

This should have been a very straightforward item. It was disappointing that only 56% selected the key, C. 28% incorrectly selected wages of machine operators. It was expected that candidates would recognise these as being part of the prime cost.

PRINCIPLES OF ACCOUNTS

General comments

Overall this paper was very well done. However, it was evident that some Centres had not given sufficient coverage of some topics in the syllabus. See the comments below.

Comments on specific questions

Section A

Question 1

(a)   It was evident that there had been insufficient practice of Cash Book preparation; very few candidates solved the simple calculation of the opening bank balance, $1640. The lack of knowledge was also evidenced by the poor use of narratives. For example, the word 'cheque' is not sufficient for a mark for the entries of $50 and $450 on May 27. The correct narrative was to use the account name 'Sally Jones'.

(b) (i) Correct answers overall, with the distinction well understood.

(c)   This part of the question was generally answered well. The main error was with regard to the bank where candidates automatically assumed that it was an asset and did not refer to part **(a)** where the candidate's own figure showed it to be a liability.

Question 2

(a)   Well answered overall. Many candidates lost marks by failing to describe the assets as fixed. Examples were not required at this point; they were required in part **(b)**.

(b)   Well understood by the majority of the candidates.

(c)   Most candidates responded well to this part of the question. There was some confusion by candidates in some Centres between the meaning of Net Book Value and Net Realisable Value.

(d) (i) Good answers overall.

  (ii)   The calculation of depreciation varied between centres. It was generally correctly valued, but it was also obvious that insufficient coverage had been given to this topic by some Centres. Attempts to calculate the figure on a weekly or monthly basis were evidence of this.

  (iii) There appears to have been insufficient coverage of the syllabus in some centres with regard to the required entries. This was demonstrated by the fact that some candidates, having correctly calculated the figure in part **(ii)**, $500, then proceeded to use the provision figure, $7,500 in the Journal. In the case of some Centres there was no attempt at this part of the question.

  (iv) Many of the attempts at this part of the question were poor. It was evident that many candidates had a very limited knowledge of the requirement. The use of such narratives as 'cost', 'fixed assets' and 'machinery' showed that there had been only minimal coverage of the preparation of a Disposal Account.

Question 3

(a) This was exceptionally well answered. The topic was well understood overall.

(b) There were very few correct answers to this part of the question. A failure to adjust the current assets for the decrease in stock was the principle error. The implication of using the Net Realisable Value of the stock instead of cost was evidently not appreciated or understood by many candidates.

(c) (i) There were a number of reasonable responses to this part of the question, with the need for profitability and liquidity being recognised by many candidates. However, some candidates showed that the required underpinning knowledge had not been given sufficient coverage and the response of these candidates contrasted starkly with the excellent standard of calculation in part **(a)** of the question.

(ii) Many candidates missed the point of this part of the question, which was to comment on Ahmed's business results. For example, the candidate could have compared the gross profit and net profit ratios, 47.9% and 12.5% respectively and drawn the conclusion that Ahmed's expenses must be high. Advice on how to improve the ratios was not required in this question.

Question 4

(a) The majority of candidates were only able to state that book-keeping involved recording data. Very few candidates developed the definition to include entering up Journal and Ledger Accounts. In the case of accountancy responses were very weak, although candidates at some Centres gave very good definitions.

(b) This was well answered, especially with regard to a trading business. However, understanding of a service business was much weaker; many candidates were unable to develop an answer beyond writing that "a service business gives a service". Appropriate examples of each type of business could have been used to show the distinction. Some candidates also confused a service business with non-profit organisations such as clubs.

(c) Overall excellent answers from the majority of candidates.

(d) This part of the question produced a poor response. The point that ethical behaviour involved confidentiality, trust, reliability and giving advice for decision making had evidently not been covered by many Centres.

Question 5

(a) The Trading Account was well answered, the correct gross profit being arrived at by the majority of candidates. The Profit and Loss Account was also well answered overall. A common error was in the calculation of depreciation for furniture and fittings, in that candidates failed to deduct the residual value given in note (3) of additional information. Also, candidates in some instances lost marks by including the balances of provisions for depreciation from the trial balance. The majority of appropriation accounts were also good. A weakness shown by candidates from some Centres was the inclusion of non-appropriate items, such as drawings or current account balances.

(b) In the fixed assets section some candidates failed to update depreciation balances, even where these were correctly calculated in the Profit & Loss Account. Additionally, marks were lost where candidates updated the provision balances correctly but failed to show the Net Book Value. The current accounts were generally done well. However, it was evident that some Centres had not covered this topic adequately, and some candidates added opening current account balances to capital or they subtracted drawings and profits and then added these to capital on the same basis as a sole trader's business.