PRINCIPLES OF ACCOUNTS

Paper 7110/11
Multiple Choice

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

Key Messages

A large number of candidates had a good knowledge of the subject and were able to apply that knowledge to the given situations. Some candidates did not have a thorough knowledge of double entry book keeping which is essential when sitting an examination of this standard. Candidates are reminded of the importance of reading each item very carefully before selecting their answers. The stem often contains an important word or phrase which assists candidates to select the correct key: if the item is not read carefully this piece of information can be overlooked.

General Comments

There were 269 candidates. The mean mark was 15. All the items were within the scope of the syllabus.

Comments on Specific Questions

Item 4

The majority of candidates (62%) understood that trade discount never appears in a ledger account and only the net amount is entered. The key was correctly selected by 43%. The other 19% selected option A which is the entry which would be made in the books of the purchaser not the seller. Careful reading of the item may have prevented this error.

Item 7

While most of the candidates understood that unpresented cheques and uncredited deposits have the opposite effects on a bank statement balance, only 46% selected the key, B. Others incorrectly believed that the cash book balance would be $500 more than the balance on the bank statement.

Item 8

A sole trader does not use an appropriation account and this would immediately eliminate options A and B. 70% of candidates selected options C and D, and those candidates with a thorough knowledge of double entry were able to correctly identify D as the key.

Item 9

Only a few candidates selected the key as the answer. However, many candidates incorrectly selected option B as they did not include cash discount in their calculation. It may be that they mistakenly believed that cash discount related to cash sales: it is, in fact, an inducement to credit customers to pay their accounts promptly.

Item 10

The account had an opening debit balance (a prepayment) and a closing credit balance (an accrual), so options A and B could be eliminated. Candidates were expected to know that rent receivable would not be recorded in the same account as rent payable. This meant that the key must be D.

Item 12

This item proved to be more difficult that anticipated. It was expected that most candidates would understand that the expense for the year was $4800 (12 months x $400) and so select the key, D.

Item 13

The item asked for the entries made at the end of the financial year. This should have prompted candidates towards the year-end transfer of the bad debts account to the income statement and towards option D.

Item 14

It was expected that candidates would realise that options A and B are payments not receipts, so the choice should have been between Options C and D. The key was C.

Item 18

The majority of candidates did not appreciate that if an accrual of $250 is treated as a prepayment the profit will be affected by double that amount. In this case, the profit would be overstated by $500 (option B).

Item 21

42% selected the key, D. It was expected that the majority of candidates would know that capital employed is equal to the total of the owner's capital and the non-current liabilities.

Item 22

Like item 12, this involved a calculation of the amount relating to a particular financial year. The income relating to the financial year was $9600 (option A).

Item 23

This item required knowledge of the effect of accrued income on the income statement and the statement of financial position (balance sheet). It was expected that candidates would know that accrued income at the end of the year is added to the income actually received and appears as an asset in the statement of financial position (balance sheet)

Item 25

If the mark-up on goods is 25% then the sales of $300 000 must be equal to 125%. The cost of sales must be equal to 100% which was $240 000 (option D). The majority of candidates incorrectly based their calculations on 25% on $300 000.

Item 30

A significant number of candidates incorrectly selected option D instead of option C. Money measurement is the accounting principle which states that only information which can be expressed in terms of money can be recorded in the accounts.

PRINCIPLES OF ACCOUNTS

Paper 7110/12
Multiple Choice

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

Key Messages

Many candidates had a good knowledge of the subject and were able to apply that knowledge to the given situations. Some candidates did not have a thorough knowledge of double entry book keeping which is essential when sitting an examination of this standard. Candidates are reminded of the importance of reading each item very carefully before selecting their answers. The stem often contains an important word or phrase which assists candidates to select the correct key: if the item is not read carefully this piece of information can be overlooked.

General Comments

There were 15 480 candidates and the mean mark was 13.06. There was one item which proved to be much easier than anticipated, three items were slightly too difficult and three items proved to be more difficult than expected. All the items were within the scope of the syllabus.

Comments on Specific Questions

Item 2

An element of guesswork is evident from the statistics. It was expected that the majority of candidates would know that owner's equity is equal to non-current assets + working capital – non-current liabilities (option C).

Item 4

While majority of the candidates knew that a credit note is entered in a returns journal, only 39% understood that credit notes received from suppliers are listed in the purchases returns journal.

Item 6

While almost 84% understood that unpresented cheques and uncredited deposits have the opposite effects on a bank statement balance only half of them selected the key, B. Others incorrectly believed that the cash book balance would be $500 more than the balance on the bank statement.

Item 7

A lack of understanding of three column running balance accounts resulted in many candidates selecting an incorrect option. The account has an opening debit balance and there is a debit entry on 2 August, so the balance after this transaction must be a debit of $11 500.

Item 9

This item proved to be more difficult than anticipated. It was expected that most candidates would realise that the income for the year was $1200 (12 months x $100). An understanding of double entry should have enabled candidates to then select the key **(D)**.

Item 12

The key was selected by 46%. If capital expenditure is treated as revenue the expenses will be overstated. There is no effect on the trial balance as both non-current assets and expenses are debit items. The statement of financial position (balance sheet) will still balance (the non-current assets will be understated as will the profit for the year).

Item 16

The majority of candidates did not appreciate that if an accrual of $250 is treated as a prepayment the profit will be affected by double that amount. In this case the profit would be overstated by $500 (option B).

Item 18

Equity is the total funds provided by shareholders ($500 000 in this case). Capital employed is the total funds being used by the company which is the shareholders' funds plus the non-current liabilities ($670 000 in this case).

Item 19

It was anticipated that most candidates would know that inventory is always valued at the lower of cost and net realisable value. However, many candidates incorrectly valued the inventory at cost price.

Item 20

This should have been a straightforward item. When a trader takes goods for personal use, the purchases account is credited and the drawings account is debited. There is no effect on the inventory account, which only records the opening and closing inventory values, not day-to-day transactions.

Item 21

This item required knowledge of the effect of accrued income on the income statement and the statement of financial position (balance sheet). It was expected that candidates would know that accrued income at the end of the year is added to the income actually received and appears as an asset in the statement of financial position (balance sheet).

Item 22

Candidates should be aware that only money actually received and paid is entered in a receipts and payments account. Option A should have been selected as the key.

Item 23

If the mark-up on goods is 25% then the sales of $60 000 must be equal to 125%. The cost of sales must be equal to 100% which is $48 000 (opening inventory ($10 000) + purchases (?) – closing inventory ($14 000) is equal to $48 000), so the purchases must be $52 000. The majority of candidates incorrectly based their calculations on 25% of $60 000.

Item 25

This item was also based on an understanding of funds provided by shareholders. The paid-up share capital of $50 000 plus the reserves at the end of the year of $4100 equal the shareholders' funds.

Item 27

A journal entry to record wages is a topic which appears not to be fully understood by a large number of candidates. Candidates should have realised that the payment of $5200 involved a credit entry in cash which should have prompted the selection of option D.

Item 28

This should have been a straightforward item. It was expected that that majority of candidates would have known which items are included in the calculation of the quick (acid test) ratio.

Item 29

The statistics indicated a substantial degree of guesswork. Candidates should have been able to eliminate options A and C immediately. After careful thought, candidates should have also eliminated option D. Valuing non-current assets at cost less depreciation is an example of the application of the going concern principle.

Item 30

The accounting year principle appears to be a principle which is not familiar to many candidates. As reports are required at regular intervals, the life of the business is divided into accounting periods – usually years. This allows meaningful comparisons to be made between different periods of the same business and between one business and another.

PRINCIPLES OF ACCOUNTS

Paper 7110/21

Paper 2

General Comments

It was evident that many candidates did not have an adequate understanding of double entry procedures. Where this was an essential requirement to answering a question candidates did not respond adequately.

Question 1

(a) The majority of candidates named the required business documents and books of prime entry correctly.

(b) Candidates provided a reasonable response to this part.

(c) Very few answers demonstrated a thorough understanding of how to prepare a ledger account. Values and narratives were often incorrect and entries placed on the wrong side of the account.

(d) Candidates did well on this part. The appropriation ledgers were identified by the majority of candidates.

(e) Most candidates provided a very good response to this part and the advantages of computerised systems were well recognised.

Question 2

(a) There was a poor response on this part from the majority of candidates. Again a lack of double entry appreciation was evident.

(b) Answers to this part of the question reflected the responses to **(a)** above. The positive, negative effect, or no effect, on key figures requires an underpinning of double entry appreciation in order to give correct answers.

(c) Answers varied and where relevant only the concept of prudence was indicated and developed. The concept of matching/accruals was rarely seen.

(d) and **(e)** Generally a reasonable response, but some candidates showed little understanding of the required calculation of employee wages.

Question 3

(a) Most students provided a good response with regard to naming the types of error.

(b) The essential appreciation of accounting procedures and the resulting arithmetic effect, if any, on a figure, where errors were involved, was not well understood. Few correct answers were seen.

(c) Weak double entry appreciation was again in evidence. Only a minority of candidates provided fully correct solutions. Error 2 particularly proved difficult for candidates.

Question 4

(a) (i) and **(ii)** Candidates provided generally reasonable answers. However, some candidates lost marks due to not following the question requirement for an answer to two decimal places. Some candidates also did not provide a descriptor of the ratio e.g. for **(ii)** 1.05:1 was required, 1.05 only was not adequate.

(b) (i) and **(ii)** Answers were overall brief and candidates did not demonstrate a sufficient depth of conceptual underpinning with regard to the ratio results calculated to comment adequately.

(c) Performance of candidates on this part was reasonable. The introduction of capital or the sale of non-current assets was often seen.

Question 5

This question was well answered. This topic was evidently well prepared when compared with other double entry topics on the paper.

(a) Common errors were as follows:

not including import duty in the trading section of the account
incorrectly apportioning transport costs
entering the reduction in provision for doubtful debts as a negative in the expenses column
miscalculating loan interest

(b) Candidates provided good well-presented answers to this part

(c) Common errors were as follows:

not updating accumulated depreciation figures correctly (often calculated correctly in part **(a)**).
showing the provision for doubtful debts as an adjustment but not presenting a net figure of debtors.
omitting accruals items, e.g. loan interest.
not fully giving an appropriate loan description, i.e. the word loan only is not sufficient, 8% bank loan was required.

PRINCIPLES OF ACCOUNTS

Paper 7110/22

Paper 2

General

Many candidates lacked an essential underpinning with regard to double entry procedures. Responses to questions where this was a key requirement were not adequate. A thorough coverage of the syllabus is essential to ensure candidates achieve success in the examination.

Question 1

(a) The core requirement of the question, i.e. to calculate a capital figure, was not correctly undertaken by many candidates. Simply listing the given figures without calculating the capital figure or incorrectly calling the figure a balance was not a sufficient response. Very few candidates attempted to provide an appropriate narrative.

(b) Though most candidates performed well on this part, only a minority of candidates included the disposal account entries.

(c) The alternative uses of the journal were identified by only a minority of candidates, e.g. correcting errors. Many candidates confused the use of the journal with the use of control accounts.

(d) Candidates could generally identify the books of prime entry successfully and make a reasonable attempt at the source documents. Most of the candidates failed to calculate any of the effects on profit correctly.

Question 2

(a) The most common errors in this part were:

putting the opening balance on the credit side of the account
making no adjustment for the sales error, $86
entering the dishonoured cheque and the contra entry on the wrong side of the account.

(b) The overall performance of candidates on this part was good. Many candidates achieved full marks. There were some evident misconceptions, e.g. to calculate profits, or, calculate total sales or purchases.

(c) This part of the question was not answered well. Many candidates gave source documents, instead of the appropriate books of prime entry.

(d) The lack of a good appreciation of double entry was evident in the responses to this part of the question. Entries were reversed, the bad debt figure, $1380 was incorrectly calculated. Narratives, where presented, were not appropriate.

(e) Many candidates identified prudence and commented appropriately. However, only a minority of candidates gave accruals/matching.

Question 3

This question was not well responded to by many candidates.

(a) There were very few correct answers to this part. In many instances partially correct solutions were presented. Candidates did not correctly apply the figures on a time point basis and often used them incorrectly with regard to their positive or negative effect.

(b) As in part **(a)** there were very few correct answers. The figures appropriate to **(a)** were often erroneously used in this part of the question.

(c) Again the weakness with regard to double entry and a lack of practice to use it correctly was evident in the answers to this part. The opening and closing balances were often placed on the wrong side of the account. Incorrect narratives were used.

(d) Although the answers were reasonably presented, only a minority of candidates correctly calculated the purchases figure.

(e) There were varied answers to this part and again a thorough understanding of the topic was lacking. Despite having calculated a subscriptions figure or refreshment profit figure many candidates did not include them in this account.

(f) Only a minimal number of good explanations were presented by the candidates. Many attempts simply repeated the wording in the question, i.e. receipts and payments or income and expenditure.

Question 4

(a) Candidates presented excellent answers to this part.

(b) Answers were generally good. Many candidates identified the essentially required points.

Question 5

This question was generally well answered when compared with the other four questions on the paper. It was evident that this topic was seen as the means of achieving success.

(a) Common errors were the miscalculation of the following:

Communication expenses
Depreciation of motor vehicles
Interest on loan
Interest on capital for Cain

(b) The current accounts were overall correctly shown.

(c) Following were the common errors on this part:

The motor vehicles cost figure was incorrectly calculated.
The bank figure was not adjusted.
The loan from Cain was not correctly identified.
The capital figure for Cain was not adjusted.

