PRINCIPLES OF ACCOUNTS

Paper 7110/11
Multiple Choice

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

Key Messages

Many candidates had a good knowledge of the subject and were able to apply that knowledge to the situations described in the items. Some candidates did not appear to have a thorough knowledge of double entry book-keeping.

Candidates are reminded that it is essential to read each item very carefully before attempting an answer. This ensures that an important word, phrase or figure is not overlooked.

General Comments

The mean mark scored was 15.12. There was only one item that proved to be considerably more difficult than anticipated. Two items were easier than expected. All the items were within the scope of the syllabus.

Comments on Specific Questions

Item 2

Very few candidates selected the correct answer. It was expected that candidates would understand that the expenses have to be calculated before the profit for the year can be calculated.

Item 5

Vehicles are goods for resale from the viewpoint of Claude Motor Company so the sale would be recorded in the sales account and not regarded as the disposal of a non-current asset.

Item 6

Few candidates answered the question correctly. When a credit customer is overcharged, he will send a debit note to the credit supplier requesting a reduction to the invoice. In response, the supplier will issue a credit note confirming that the balance outstanding has been reduced.

Item 7

The statistics indicate a degree of guesswork. The total of the purchases returns journal is credited to the purchases returns account and the total of the sales journal is credited to the sales account.

Item 8

Once again, there appears to be a degree of guesswork. When a cheque is dishonoured the entries are the reverse of those made when the cheque was received: the bank account is credited and the account of the credit customer is debited. The customer's account may or may not be written off as a bad debt after a cheque has been dishonoured – but this is a completely separate transaction.

Item 9

The key was selected by many candidates who correctly made the adjustments for unpresented cheques and uncredited deposits. Some candidates made the correct adjustments, but treated the balance on the bank statement as a positive balance rather than an overdraft.

Item 10

It was expected that candidates would appreciate that the balance on an expense account would appear in the statement of financial position. In this case the balance would be brought down on the debit side so would be an asset. The expense for the year is shown in the account being transferred to the income statement so Options A and B were incorrect answers to the question being asked.

Item 12

Some candidates correctly selected C as the key. In Liam's books the rent account would have a debit balance brought down representing the rent paid in advance. Gavin is the landlord, so rent paid in advance to him would appear as a credit balance brought down in the rent receivable account: he has received the money but is under an obligation to provide the service.

Item 13

Many candidates appreciated that if a provision for doubtful debts is to be adjusted only the amount of the increase or decrease is transferred to the income statement. Few understood that the increase of $300 would be debited to the income statement and credited to the provision account.

Item 14

The majority of candidates understood that the assets would be understated if an item of capital expenditure was treated as revenue expenditure. Few candidates also appreciated that the profit for the year would also be understated (as a result of the expenses being overstated).

Item 15

The annual depreciation charge for a non-current asset is debited to the income statement and credited to the provision for depreciation account. Only the cost of assets purchased and the cost of those disposed of are recorded in the asset account: depreciation is not recorded in this account.

Item 18

The majority of candidates incorrectly believed that carriage outwards and discounts received affect the gross profit. Both these items appear in the profit and loss section of the income statement, which is prepared after the calculation of the gross profit.

Item 20

Inventory is always valued at the lower of cost and net realisable value. The value of product G was 900 units x $2.00 each and the value of product H was 800 units at $1.20 each, making a total of $2760.

Item 22

Candidates reading the item carefully would realise that the question required them to name the account which would be credited when a trader took goods for his own use. The double entry would be to debit drawings and credit purchases, so the key was C.

Item 24

Only those candidates with a thorough appreciation of subscriptions accounts selected the correct answer. Workings in the form of a "T" account would have been helpful to candidates. This would have shown an opening debit balance of $500 and a credit of $6000 for subscriptions received during the year. The closing accrual would have been credited and carried down as a debit balance, leaving a transfer to the income and expenditure of $6300.

Item 28

Some candidates correctly selected A as the key. It was expected that candidates would know that the calculation of the quick ratio excludes the inventory from the current assets.

PRINCIPLES OF ACCOUNTS

Paper 7110/12
Multiple Choice

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

Key Messages

Many candidates had an adequate knowledge of the subject and were able to apply that knowledge to the situations described in the items. It was noticeable that a significant number of candidates did not appear to have a thorough knowledge of double entry book-keeping.

Candidates are reminded that it is essential to read each item very carefully before attempting an answer. This ensures that an important word, phrase or figure is not overlooked.

General Comments

There were 14 835 candidates. The mean mark was 13.38 and the standard deviation was 5.32. When compared to the target accessibility of 25-80% two items proved to be considerably more difficult than anticipated. No items were easier than expected. All the items were within the scope of the syllabus.

Comments on Specific Questions

Item 3

This item required knowledge of double entry book-keeping. Despite the item stating that the vehicle was purchased by a cheque from the owner’s private bank account, many candidates incorrectly selected Option C as the key which involved a credit to the business bank account.

Item 5

The key was selected by 36% candidates. These candidates appreciated that when goods are damaged or returned the credit customer will send a debit note to the credit supplier requesting a reduction to the invoice. In response, the supplier will issue a credit note agreeing to a reduction in the invoice.

Item 8

The key was selected by some candidates who correctly made the adjustments for unpresented cheques and uncredited deposits. Some candidates made the correct adjustments, but treated the balance on the bank statement as a positive balance rather than an overdraft.

Item 9

Only those candidates with a good knowledge of double entry book-keeping selected the correct key. It was necessary to credit sales returns with $300 to cancel the incorrect entry, credit sales with $300 to enter the item in the correct account and to debit Yasmin with double the amount of the invoice ($300 to cancel the incorrect credit entry and $300 to make the correct entry).

Item 10

This item also required candidates to understand double entry book-keeping. The entries shown represent a cheque received from Droghba for $228 and a cash discount of $12 being allowed for prompt payment. It was expected that candidates would appreciate that trade discount never appears in the ledger.

Item 13

A thorough knowledge of double entry bookkeeping was also required in this item. Those candidates preparing a “T” account would have shown an opening debit balance of $120 and a debit of $1280 for the amount paid. The transfer to income statement of $960 would have appeared on the credit side, leaving a balance to carry down to the debit side of $440, representing a prepayment.

Item 14

Many candidates knew that only the amount of the increase or decrease is transferred to the income statement if a provision for doubtful debts is to be adjusted. However, only some candidates understood that the increase of $300 would be debited to the income statement and credited to the provision account.

Item 15

The majority of candidates understood that the assets would be understated if an item of capital expenditure was treated as revenue expenditure. Only some also appreciated that the profit for the year would also be understated (as a result of the expenses being overstated).

Item 16

The key was selected by 45%. Once again, a thorough knowledge of double entry book-keeping was essential. The purchases account had to be debited to remove the incorrect entry, and Rafiq’s account had to be debited to make the correct entry. The corresponding double entries of $800 each should have been made in the suspense account.

Item 20

It was expected that candidates would understand that inventory is always valued at the lower or cost and net realisable value.

Item 22

When a partner makes a loan to a partnership the loan interest is an ordinary financial expense in the income statement: it is not regarded as an appropriation of profit.

Item 23

Only those candidates with a thorough appreciation of subscriptions accounts selected the correct answer. Workings in the form of a "T" account would have been helpful to candidates. This would have shown an opening debit balance of $500 and a credit of $6000 for subscriptions received during the year. The closing accrual would have been credited and carried down as a debit balance, leaving a transfer to the income and expenditure of $6300.

Item 24

Few candidates selected the correct answer. A significant number of candidates incorrectly calculated the profit as 25% of revenue: where the mark up is 25% on cost the revenue must be equal to 125%. The gross profit should have been calculated as $30 000, resulting in a loss for the year of $5000.

PRINCIPLES OF ACCOUNTS

Paper 7110/21
Paper 2

Key Messages

Candidates need to be thorough in their understanding of double entry procedures.

General Comments

Many candidates were not adequately prepared for the examination and demonstrated poor understanding of double entry procedures.

Most candidates produced a good response to **question 5**.

Comments on Specific Questions

Question 1

(a) Candidates presented reasonable answers to this question. The identification of the source documents debit note and cheque counterfoil (stub) proved to be most challenging.

(b) Overall candidates provided good answers I although it was evident some candidates had not prepared this topic.

(c) Performance of candidates on this question was good. A common error was entering the bank loan as a debit and not credit. Some candidates, having found the difference, were unable to identify it as a suspense balance.

Question 2

(a) Most candidates provided good responses to this question. The causes of depreciation were well recognised.

(b) Answers to this question varied between candidates. It was evident that some candidates were not sure with regard to the depreciation method being utilised, that is, the calculation was based on the straight-line method not the reducing balance method.

(c) Candidates did not perform well on this question. Candidates needed a thorough understanding of double entry procedures.

(d) As in (c), performance of candidates did was not adequate. A weakness in double entry appreciation was evident. The transfers with regard to the disposal account were not being well appreciated.

(e) Most candidates provided a weak response to this question. Many candidates were unable to identify the correct cost figure.

(f) Most candidates provided good responses to this question. The distinction between capital and revenue expenditure was well understood.

Question 3

(a) The response to this question was reasonable. Many well laid out accounts were seen. A common error was to give the dividend figures on a combined basis rather than separately.

(b) Many candidates provided good answers. However, having provided a total few candidates were able to identify it as, shareholders funds.

(c) The majority of candidates were able to identify two differences between the two types of shares.

(d) Answers to this question varied. Many candidates completely omitted it.

(e) Candidates provided reasonable answers. The comparison aspect of accounts, where international standards are utilised, was appreciated by many candidates.

Question 4

(a) Many candidates provided good answers scoring full marks for calculating the required ratios.

(b) Candidate performance varied on this question. The conceptual implication of working capital sufficiency was not appreciated by some candidates.

(c) As in **(b)** performance of candidates varied and only a minority of candidates were able to complete all four proposals correctly.

(d) Candidate performance varied on this question. Proposal 1 was not recognised by many candidates. Proposal 2 provided a better response.

Question 5

(a) Many candidates appropriately prepared the manufacturing account. Some candidates showed a weakness in the layout of accounts.
Common errors were:
- including factory wages in factory overheads
- incorrectly calculating the insurance figure
- not identifying the prime cost figure with the appropriate narrative.

(b) Most candidates produced income statement correctly.
Common errors were:
- omitting the drawings figure in the cost of sales calculation
- incorrectly calculating insurance figure
- omitting or incorrectly calculating loan interest.

(c) Many candidates prepared the statement of financial position correctly.
Common errors were:
- omitting components of the inventory e.g. work in progress
- incorrectly adjusting the provision for doubtful debts, even where it had been correctly calculated in **(b)**
- not entering the 8% loan or showing an incorrect figure against it
- omitting the drawings of $7500.

PRINCIPLES OF ACCOUNTS

Paper 7110/22

Paper 2

Key Messages

An adequate coverage of the syllabus is a necessity for performing well in this examination.

General comments

Many candidates did not have an adequate knowledge regarding double entry procedure. Most candidates demonstrated a good performance on **question 5**

Comments on Specific Questions

Question 1

(a) **(i)** The calculation of capital, that is, the application of the accounting equation was not well understood.

(ii) The term capital employed was not fully appreciated by many candidates.

(b) The comment above regarding inadequate double entry knowledge is pertinent regarding responses to this part of the question.

When preparing the two required ledger accounts common errors were:
no dates were given
narratives were incorrect
the balance b/d was not entered.

(c) Only a minority of candidates identified the appropriate concept. When correctly identified few candidates could give an explanation. In some cases candidates completely omitted this question.

(d) Candidates provided reasonable answers to this question.

Question 2

(a) Generally, this was well answered. The term depreciation was well appreciated.

(b) Answers to this question varied. Many candidates gave the straight-line calculations correctly but the reducing balance calculations were often incorrect.

(c) Generally this was well answered. Many correct answers were seen.

(d) Few answers gave a correct advantage of the reducing balance method. A common error was to relate the balance figure to market value.

(e) The appreciation of the appropriate concepts was minimal and explanations were poor.

(f) Many candidates provided good answers. The distinction between revenue and capital expenditure was well understood.

Question 3

(a) Generally this question was well answered.

(b) Overall many candidates calculated the purchases figure correctly. However, the cash purchases were missed by many candidates.

(c) The banked figure was often given, but, only a minority of candidates appreciated the need to include wages, drawings and cash purchases.

(d) When presented the structure of the account was very good. However, some candidates did not use their answer from **(c)**.

Question 4

(a) Most candidates provided very good responses to this question.

(b) This question was reasonably well answered. Many correct responses were there for adjustment 2 and 4, but few for adjustment 3.

Question 5

(a) Many candidates prepared the income statement and appropriation account correctly.
Commons errors were:

not including the decrease in the provision for doubtful debts
inappropriate treatment of the depreciation on the lease
omitting the bank interest
calculating the interest on capital for Edgar incorrectly.

(b) Overall the current accounts were well prepared.

(c) Most candidates prepared the statement of financial position reasonably well.
Common errors were:

recording the bank figure incorrectly, that is, not including the $20 000.
recording the bank loan as a non current liability and not as a current liability, i.e. the date implication regarding repayment was not recognised.
totalling the capital and current accounts and not showing separate sub totals.