PRINCIPLES OF ACCOUNTS

Paper 7110/11
Multiple Choice

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

Key messages

This paper required candidates to have a thorough understanding of double entry and financial statements.

It is important to read through each item very carefully before selecting an option. This ensures that an important figure, word or phrase is not overlooked. It is particularly important to focus on any word in a question that has been emboldened.

General comments

Some items proved to be slightly more challenging for candidates.

Comments on specific questions

Item 3

Most candidates understood that the entry would be to credit sales and debit Leroy, but not all were able to correctly identify the ledger in which each account would appear.

Item 5

The question required entries in the books of the trader who issued the cheque and not the trader who received the cheque. When the cheque was returned the issuer (Ali) would debit the bank account and credit Ayub (Option D).

Item 10

Candidates were asked to identify the entries required to reduce a provision for doubtful debts. Most candidates understood that $50 would be entered in the income statement and the provision for doubtful debts account. Those candidates with a thorough understanding of double entry correctly selected Option C as the key.

Item 11

The majority of candidates incorrectly selected Option C ($4050) which was the purchase of fixtures plus the loss on sale of machinery less the proceeds of sale of machinery and less the profit on disposal of equipment. Purchase of fixtures and proceeds from the sale of machinery do not affect the profit for the year. The profit should have decreased by $1250 (the loss on sale minus the profit on disposal).

Item 12

Many candidates understood that the adjustment would appear in the income statement and the provision for depreciation account, but only few candidates with a thorough knowledge of double entry correctly selected the key, B.

Item 14

Option A was the most popular answer. The key was Option D. Candidates should have realised that the question related to a debit balance, which represents an overpayment to suppliers.

Item 15

Inventory is always valued at the lower of cost and net realisable value. This rule is applied to each type of inventory separately. Product P should have been valued at $1500 and Product Q should have been valued at $3500, making a total of $5000.

Item 20

The transfer to the income and expenditure account should represent the subscriptions relating to that financial year. This is the amount received in the year ($8480), plus the amount received last year relating to this year ($560) and plus the subscriptions outstanding at the end of the year ($400).

Item 22

The missing figure of $2900 was correctly calculated by many candidates, but some could not identify whether this represented a loss or a profit. Workings in the form of a “T” account can often assist candidates to correctly interpret the entry as representing a profit or a loss.

Item 23

Many candidates were able to correctly identify the key D. Options A to C are correct statements therefore not the correct answer.

Item 24

Debentures are not part of the equity and reserves of a limited company.

Item 27

Any change to expenses will have no effect on the gross profit percentage. A reduction in the selling price will reduce gross profit percentage.

Item 28

This item proved to be challenging for many candidates. The key was D. The return on capital employed measures the profit earned on the funds used in the business: the higher the return the more efficiently the capital is being employed.

Item 29

Transferring the expense for the year to the income statement ensures that the revenue for the year is matched against the costs of the same period.

Item 30

International accounting standards aim to narrow the areas of difference of accounting practice and improve comparability. These aims are covered in Options A, C and D. International accounting standards do not aim to establish organisations to set separate standards in every country, so Option B was the key.

PRINCIPLES OF ACCOUNTS

Paper 7110/12
Multiple Choice

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

Key messages

This paper required candidates to have a thorough understanding of double entry and financial statements.

It is important to read through each item very carefully before selecting an option. This ensures that an important figure, word or phrase is not overlooked. It is particularly important to focus on any word in a question that has been emboldened.

General comments

All the items were within the scope of the syllabus. One item proved to be slightly more challenging for many candidates.

Comments on specific questions

Item 5

Many candidates selected the correct answer. Though most understood that the entry would be to credit sales and debit Leroy, not all were able to correctly identify the ledger in which each account would appear.

Item 6

A credit note is issued by the seller when goods are returned. The seller would enter this in the sales returns journal.

Item 7

At the end of each month a supplier may issue a statement of account to the customer. As well as notifying the customer of the amount due, this also provides a summary of the transactions in the month. The customer's credit limit is already established before trading takes place.

Item 8

Candidates should appreciate that, unlike cash discount, trade discount does not appear in the double entry records and so will not appear in the financial statements.

Item 9

The key was selected by many candidates. These candidates understood that each item required a credit entry in the cash book, causing the balance to decrease to $6223.

Item 12

Candidates were asked to identify the entries required to reduce a provision for doubtful debts. Most candidates appreciated that $50 would be entered in the income statement and the provision for doubtful debts account. Those candidates with a thorough understanding of double entry correctly selected Option C as the key.

Item 13

Most candidates understood that the adjustment would appear in the income statement and the provision for depreciation account, but only those candidates with a thorough knowledge of double entry correctly selected the key, B.

Item 15

Where a trader has maintained a full set of accounting records, control accounts are used as a means of checking the arithmetical accuracy of the sales and purchases ledgers. Where a trader has maintained only a few accounting records, total trade receivables and total trade payables accounts may be prepared to calculate the credit sales and credit purchases.

Item 16

The source of information for discounts received is the cash book.

Item 17

Those candidates who read the question very carefully realised that the rent represented rent received in advance from the tenant. This represents money received for a service which has not yet been provided and would appear under "other payables" in the statement of financial position.

Item 18

Inventory is always valued at the lower of cost and net realisable value. However, many candidates did not appreciate that this rule is applied to each type of inventory separately. Product P should have been valued at $1500 and Product Q should have been valued at $3500, making a total of $5000.

Item 19

Cash drawings do not affect the profit of a business, but they do reduce the cash and so reduce the current assets of the business.

Item 21

Share of loss and interest in drawings are debited to the current account of a partner and share of profit and interest on capital are credited.

Item 22

Options B to D are true statements. It is not possible to include the annual profit in a partnership agreement as will not be known until the end of each financial year.

Item 23

The transfer to the income and expenditure account should represent the subscriptions relating to that financial year. This is the amount received in the year ($8480), plus the amount received last year relating to this year ($560) and plus the subscriptions outstanding at the end of the year ($400).

Item 24

The inventory caused a few problems in the calculation of the cost of sales. Candidates selecting Option A ignored the inventory completely. The difference in the inventories should have been added to the purchases figure, giving a cost of sales of $7450. Candidates selecting Option B deducted the difference in the inventories.

Item 26

A time sheet is completed by an employee to show the hours spent on each job. This document is then used by the employer to calculate the employee's gross pay based on the hourly rate of pay.

Item 28

Any change to expenses will have no effect on the gross profit percentage. A reduction in the selling price will reduce gross profit percentage.

Item 30

Those candidates who had a thorough understanding of accounting principles were able to identify Option D as the key. Transferring the expense for the year to the income statement ensures that the revenue for the year is matched against the costs of the same period.

PRINCIPLES OF ACCOUNTS

Paper 7110/21
Paper 2

Key messages

Candidates were generally well prepared and able to produce answers in the expected formats of this established paper.

Those candidates who had a strong foundation in basic accounting principles such as ledger accounting were better prepared to manage the tabular and ledger topics covered in **questions 1**, **2** and **4**.

General comments

The question areas that require development and practice by candidates were **question 2** on control accounts and **question 3** specifically the total factory wages cost. Many candidates could calculate the net pay for employees but did not understand their relationship to employer's gross pay and deductions.

Comments on specific questions

Section A

Question 1

(a) This required standard ledger account entries, date detail and the amount. Many transactions were reversed and credit notes and discounts allowed were regularly omitted.

(b) Many candidates answered this part correctly.

(c) The part required entering up of two transactions into the bank account and the balancing-off of the account. This provided the opening figure for part (d) and the bank reconciliation statement. Dividends were often shown as credit entries and bank charges ignored.

(d) Bank reconciliation statements are essential in maintaining accurate bank account details. A thorough understanding and practice of this is key to gaining high marks and as preparation for producing these statements on computerised systems.

(e) Source documents and relevant book of prime entry was answered well, payslip was often quoted incorrectly as a source document.

Question 2

(a) Candidates who clearly understood the purpose of extracting a closing balance to derive a figure for trade receivables performed well on this part. Opening and closing credit balances caused some problems and a common error was the inclusion of cash sales in the account as well as showing the dishonoured cheque entry on the credit side.

(b) Many candidates were able to give relevant reasons for preparing control accounts.

(c) Most candidates were able to name the type of error in question.

(d) The second adjustment for the correction of discount allowed being credited to discount received required two debit entries of $970 and this escaped many candidates. Regular practice of journal entries strengthens double entry logic and supports understanding when answering such questions.

Question 3

(a) Most candidates could give a valid example of voluntary contribution.

(b),(c) Employee's net pay was generally easy to calculate after making identified deductions. The weak area for candidates was being able to aggregate the gross pay of the two employees plus the employer's social security contribution of $270 to arrive at the total wage cost of $2150. This figure was transferred into the manufacturing account in part **(d)** and marks awarded for own figure answers accordingly.

(d) Most candidates prepared the manufacturing account correctly. Weaker responses did not clearly indicate the direct and indirect cost section. Common mistakes were to deduct overheads from the prime cost and include office wages and salaries within this account.

Question 4

(a) This question required the candidate to calculate the revenue figure from cost of sales using a given gross profit margin of 25%. The cost of sales figure of $240 000 must represent 75% of the required sales revenue figure of $320 000. These ratios are referred to as the accountant's ratios and a 25% gross margin will automatically generate a mark-up of profit of 1/3 on the cost of sales arriving at the same answer. Many candidates found this aspect challenging.

(b) The working capital and quick ratios were generally well answered and liquidity issues were readily identified and good candidates highlighted levels of inventory and possible overtrading by Ng.

(c) This tabular style of question requiring the effect upon working capital is well established. Many candidates could identify the effects upon current assets and current liabilities but found the overall impact upon the working capital difficult.

Question 5

(a) Candidates were well prepared over a range of adjustments necessary to prepare the income statement and appropriation of profits. Common errors were the deduction of interest upon drawings and the omission of the interest upon capitals for the respective partners.

(b) Current accounts were well answered but still many candidates could not bring down their own balances on 1 October 2016 as instructed.

(c) The statement of financial position was well attempted by most candidates. The main aspects to be noted were that some candidates did not account for the disposal of the office fixtures and the cheque received for this disposal. Others did not realise the bank credit balance represented an overdraft or sometimes included it incorrectly in the non-current liabilities section of the statement.

PRINCIPLES OF ACCOUNTS

Paper 7110/22
Paper 2

Key messages

Candidates were generally well prepared and able to produce answers in the expected formats of this established paper.

Those candidates who had a strong foundation in basic accounting principles such as ledger accounting were better prepared to tackle the tabular and ledger topics covered in **Questions 1** and **2** and gained higher marks accordingly.

General comments

The question areas that require development and practice by candidates are **Question 3** on limited company accounts and the production of a statement of changes in equity. This is an established accounting statement for this type of organisation and candidates must be able to produce the numerical movements and demonstrate the rationale behind a transfer of earnings to the general reserve required in part **(c)**.

Question 4 was a familiar scenario with two key ratios, gross and net profit margins being given, followed by candidates unlocking a series of financial information and ratios such as percentage mark-up and return on capital employed. The flexibility of using this type of information still confuses many candidates. It is a common examination topic and is used frequently when producing budgets in practice.

Comments on specific questions

Question 1

(a) A very gentle start for candidates who are familiar with ledger accounting. The identification of assets and liabilities to produce a trial balance is central to checking manual accounting systems. The calculation of a suspense account balance is regularly required as a method of correcting errors.

(b) A common response here was to use a figure of 700 in place of 1400 for purchases and perhaps candidates did not make the connection that the journals would eliminate the suspense balance arising from their answers in part **(a)**.

(c) Good answers were seen regularly for the books of prime entry and the required debit and credit entries to the accounts. The impact upon capital was poorly answered and candidates would benefit from practising this style of question.

Question 2

(a) Both revenue and expense accounts were examined here. Date, narrative and the amount of the transaction is a standard audit requirement. Many entries were reversed; narratives incorrect and closing balances brought forward were omitted even though this was clearly requested.

(b) This table required a numerical calculation of the impact upon profit. Weaker candidates were able to calculate the first three movements but were not able to gain more marks.

(c) Many candidates seemed to think this was a document instead of a category of revenue and whilst many identified this as sales or normal trading activities only a few candidates developed their answer by qualifying it as being entered into the income statement.

(d) This style of question should see full marks but surprisingly this was not the case. There is no subjectivity or judgement required and the distinction between capital and revenue expenditure should be a foundation exercise for students of accounting.

Question 3

(a) As noted in the General comments section, this question was poorly answered. Transfers of $80 000 and $70 000 respectively to general reserve and retained profits were made but many gaps were not completed correctly or every box in the table carried a figure which showed a lack of practice in completing this statement.

(b) This matched the poor answers as seen in part **(a)**. Ordinary shares and dividends were totalled and frequently the reserves sections of the extract of financial position for Cam Limited did not match the totals calculated in part **(a)**. The importance of linking the two statements was key as marks were awarded for own figure answers being transferred into part **(b)**.

(c) Reasons for making transfers to the general reserve helps candidates to understand the numerical movements and good answers included ‘for emergencies, contingencies and pay dividends when profits are low’.

(d) This question explored candidate’s knowledge of the differences between ordinary shares and debentures. Good candidates were able to make clear distinctions between share capital and long-term loans and their associated merits. Contrasting methods of finance is a popular topic and is aimed at giving good candidates the opportunity to demonstrate their knowledge and understanding.

Question 4

(a) As noted in the General comments section, errors were made frequently. Revenue was often calculated as $210 000. Better candidates were able to reconstruct the trading account and derive sales revenue once the cost of sales had been determined. Own figure marks were available throughout this question but often workings were omitted or not clearly labelled making it difficult to gain maximum marks.

(b) Comments here were generally good and marks were awarded when based upon own figures.

(c) The first two answers of money measurement and business entity were regularly incorrect. This type of question is easily tested and should be revised frequently. Consistency and prudence enabled many candidates to gain half marks readily.

Question 5

(a) This question required the production of a substantial set of accounting statements for a manufacturing organisation. It was generally very well answered. Weaker candidates often included manager’s salary in with the direct costs, showed factory wages in the overheads and the more general errors of failing to clearly distinguish between the direct and indirect cost sections of the account and the deduction of overheads from prime cost.

(b) Candidates again were well prepared for this part of the question which is applicable to many types of organisations. Marks were lost by candidates not appreciating that the production cost needed to be brought into the income statement. Weaker candidates did not apportion costs accurately between the factory and office categories.

(c) The statement of financial position was well answered. This was clearly based upon being well practised and statements were organised into structured sections. Areas that could be improved upon are the calculation of the net book value of non-current assets, the need to include all three elements of inventory within current assets and appreciating that a bank overdraft is a current liability.