PRINCIPLES OF ACCOUNTS

Paper 7110/11
Multiple Choice

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

Key messages

Candidates must have a thorough knowledge of all the topics on the syllabus. An understanding of the double entry system of book-keeping is essential.

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

General comments

Those candidates with a thorough understanding of double entry book-keeping were able to select the correct option on the items involving ledger entries.

Comments on specific questions

Item 1

A significant number of candidates did not appreciate that accounting is performed periodically rather than daily. Some candidates incorrectly believed that book-keeping involves the preparation of financial statements.

Item 3

The majority of candidates understood that the supplier issues a credit note when goods are returned. Some of these candidates did not appreciate that the credit note would be for the amount at which the goods had been invoiced which is the list price less the trade discount.

Item 4

The bank agreed to allow Dan an overdraft with a limit of $500. This means that all cheques issued by him would be paid by the bank provided that the account was not overdrawn by more than $500. The key was **C**.

Item 5

Most candidates realised that to calculate the cash book balance it was necessary to adjust the bank statement balance by $410. The cheque issued which was not recorded on the statement meant that the cash book balance would show $90 less than the bank statement balance. The deposit of $500 not recorded on the bank statement meant that the cash book balance would be greater than that on the bank statement. The key was **C**.

Item 6

Those candidates who had a thorough knowledge of ledger accounts were able to select option **C** as the key. A debit balance on a ledger account can represent a prepaid expense, an asset and also a loss: it cannot represent an accrued expense.

Item 13

It was anticipated that the majority of candidates would select **B** as the key. Candidates should understand that depreciation does not represent a fund of money and that it is not charged in order to determine the market value of the asset.

Item 14

Those candidates who read the item carefully appreciated that the journal entry was to be made at the end of the second year of ownership so the depreciation would be 20 per cent of the book value at that date (not 20 per cent of the cost). A knowledge of double entry assisted candidates to select **A** as the key.

Item 16

This item proved to be a challenge for many candidates. It was expected that candidates would know that capital employed is the total of the non-current liabilities and the capital. The total of Beth's capital at the end of the year was $272 100. Adding on the long-term loan meant that the capital employed was $35 100.

Item 17

The trading section of an income statement is not required for service businesses. A gym and a window cleaner are service businesses so the key was **B**.

Item 20

The income and expenditure account prepared at the end of the financial year of a club contains items of income and expenses which relate to that particular year. Options **B** and **C** can immediately be eliminated. Option **D** can be eliminated as this relates to the following financial year. The key was **A**.

Item 21

The majority of candidates appreciated that rent owing by a sports club represents a current liability. Many candidates did not appreciate that if members have paid their subscriptions in advance these are regarded as a current liability from the viewpoint of the club.

Item 22

This was intended to be a relatively straightforward item, but many candidates found it rather challenging. Using the information provided it was possible to ascertain Tariq's opening and closing capital. The increase in the capital was $11 000. The profit for the year of $16 000 was calculated by adding back the drawings of $5000 to the increase in the capital.

Item 23

An understanding of the difference between margin and mark-up was required in order to calculate the revenue for the year. Most candidates correctly calculated the cost of sales as $108 000. This was then marked-up by 50 per cent in order to set the selling price. The total revenue was, therefore, $162 000 ($108 000 + $54 000). A significant number of candidates applied gross profit margin rather than mark-up.

Item 25

The production cost of goods completed is the prime cost plus the factory overheads, with an adjustment made for the opening and closing work in progress. The office and selling expenses should not be included in the calculation of the cost of production.

Item 27

Candidates found this item to be very challenging. Karim was paid monthly in arrears, which meant that he was paid at the end of each month for the work he undertook during that month. The gross pay Karim received at the end of June should have represented 160 hours (4 weeks at 40 hours per week) at $5 per hour plus 16 hours at $7.50 per hour. The key was **C**.

Item 29

Most candidates understood that the trade receivables would be included in the statement of financial position at $12 000 (the amount owing less the amount unlikely to be received). It was expected that candidates would know that premises would be recorded in the statement of financial position at cost price and not at market value.

PRINCIPLES OF ACCOUNTS

Paper 7110/12
Multiple Choice

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

Key messages

Candidates must have a thorough knowledge of all the topics on the syllabus. An understanding of the double entry system of book-keeping is essential.

Candidates are advised to read through each question very carefully before selecting their answer.

General comments

Three questions proved to be more challenging than anticipated.

Those candidates with a thorough understanding of double entry book-keeping were able to select the correct option on the questions involving ledger entries.

Comments on specific questions

Question 1

A significant number of candidates did not appreciate that accounting is performed periodically rather than daily. Some candidates incorrectly believed that book-keeping involves the preparation of financial statements.

Question 5

This question proved to be quite challenging for many candidates. Reconstructing the debit entries in the bank column in Tamir's cash book would have shown receipts of $4022 and the closing balance carried down of $1265. The credit entries would have shown payments of $4819 and a dishonoured cheque of $256. The missing figure was the opening credit balance of $212.

Question 6

Most candidates realised that to calculate the cash book balance it was necessary to adjust the bank statement balance by $410. The cheque issued which was not recorded on the statement meant that the cash book balance would show $90 less than the bank statement balance. The deposit of $500 not recorded on the bank statement meant that the cash book balance would be greater than that on the bank statement. The key was **C**.

Question 9

At the end of the financial year Seema needed to transfer the rent for the year to the income statement. This required a journal entry transferring $24 000 (12 months at a monthly rent of $2000) from the rent account into the income statement. The key was **A**.

Question 11

Candidates are expected to understand that the capital expenditure does not only include the cost of a non-current asset, it includes all other costs which relate to the acquisition and installation of that asset. In this case, the cost of the machine and the installation costs are both capital expenditure.

Question 12

Candidates should understand that depreciation does not represent a fund of money and that it is not charged in order to determine the market value of the asset.

Question 14

Carriage on purchases should be included in the cost of sales in the trading section of an income statement. If this cost is omitted, the gross profit would be overstated. The key was **B**.

Question 15

Many candidates found this very challenging. A trader decided to set $100 in a purchases ledger account against an account in the sales ledger. Preparing 'T' accounts would have assisted candidates to understand that this involved debiting the account in the purchases ledger and crediting the sales ledger account. The key was **C**.

Question 17

The income and expenditure account prepared at the end of the financial year of a club contains items of income and expenses which relate to that particular year. Options **B** and **C** can immediately be discarded. Option **D** can be discarded as this relates to the following financial year. The key was **A**.

Question 18

The receipts and payments account prepared at the end of the financial year of a club shows all monies received during the year irrespective of the year to which they relate. Option **D** was the key.

Question 19

Many candidates found the question very challenging. Preparing a 'T' account would have assisted candidates to understand that **A** was the key.

Question 23

The key was **D**. A machine is a non-current asset and appears in the statement of financial position. The running costs of a machine are a factory overhead and appear in the manufacturing account.

Question 25

Employees who work away from the premises of a business may be required to complete a time sheet showing the hours worked each day. A clock card may be used to record the time of arrival and departure each day of employees who work in a factory. The key was **A**.

Question 28

A business's percentage of gross profit to sales decreased over the last three years. Expenses do not affect the gross profit so Option **B** could be immediately discarded. The quantity of goods sold does not affect the percentage profit so Option **C** could be discarded. If the cost of sales decreased then the percentage of gross profit to sales would increase. The key was **D**.

PRINCIPLES OF ACCOUNTS

Paper 7110/21
Paper 2

Key messages

The paper assesses candidate's knowledge and ability to record, report, present and interpret accounting information. A firm grounding in the knowledge of business documentation and how they are recorded into an accounting system (AO1) provides the platform for candidates to perform well across the assessment objectives.

Analysis (AO2) and evaluation (AO3) skills draw upon this knowledge base..

General comments

Basic numeracy and accuracy in recording skills are essential for data entry into any accounting system.

The accepted terminology for recording the accounting data is 'the date', the 'account narrative' and 'the amount'. It is essential for candidates to know this terminology.

Comments on specific questions

Question 1

(a) Candidates were asked to complete a supplier account with purchase invoice and returns information requiring the calculation and deduction of 15% discount on purchases and on returned goods. These types of transactions are posted every day in all businesses and good candidates were able to calculate the correct purchase invoice amount and also recognised the need to record discount received of $3 linked to the bank payment of $97.

Weaker candidates were uncertain about which side of the account should be adjusted and were unable to balance off the account accurately.

(b) The question required specific knowledge of the types of discount associated with an invoice and this was followed by names for source documents, book of prime entry and the ledger division that a sales invoice would be recorded in. Finally the identification of the position a trade receivables balance would be listed into the current assets of the statement of financial position.

Good candidates are comfortable with recording source documents into both the sales and purchases sides of a business and fully understand the sequence of entering the information and how it flows through to the final accounting statements.

Candidates who found part **(a)** challenging were often not able to answer part **(b)** well.

(c) Generally the terms accrual and prepayment were easily answered. The qualification of the specific year that they were related to however was also required to gain the additional credit and they were often omitted.

(d) Stronger candidates used their knowledge of double entry bookkeeping to calculate the impact upon expenses and revenues and clearly understood that outstanding balances upon the accounts are indicated in the statement of financial position.

Telephone expenses was well answered, however rent receivable income of $2500 was often incorrect and the income outstanding shown as a liability.

Question 2

(a) The ability to identify the impact upon sales ledger (trade receivables) balances is aided by a firm understanding of bookkeeping. Debit and credit balances from relevant accounts can then be used to deduce the final balance on the sales ledger accounts.

Regular errors were the inclusion of cash sales into the account, the refund to customers shown as a credit and narratives of receipts in place of bank or cash. The credit balance of $150 was often omitted from the control account.

(b) Credit balances can arise on the sales ledger control account due to returns made after payment, outstanding refunds and occasionally payments made in advance.

(c) The procedure for correcting errors in an accounting system is to record them in the journal. The ability to post them accurately is essential. All three errors caused an imbalance in the books that require the differences to be posted to a suspense account. The net effect of the journal entries was a debit balance of $190 on suspense account that needed to be resolved (see part **(d)** of the question).

In many cases candidates did not recognise an error that required a suspense account entry, or if they did the bookkeeping was reversed.

(d) The balance from the suspense account in part **(c)** represented the amount to be eliminated after posting the journal entries identified in part **(b)**. Own figure marks were awarded and a balance could be derived that represented a difference in the books of debit $190 (or own figure balance).

Candidates would often carry the balance down and not make the connection and purpose behind the suspense account and the journal entries.

Question 3

(a) Debentures are not included in a statement of equity as they are loans and are not part of the equity. Most candidates made this distinction.

(b) The dividend calculation caused many problems. The dividend for the year of $21 000 was shown in the printed statement of earnings and B limited had issued 300 000 shares. The dividend per share was calculated as $\frac{\$21000}{30000} = \$0.07$.

A common error was to use 150 000 shares in the calculation with an answer of $0.14.

(c) This part of the question required an extract of a statement of financial position to be prepared showing the equity and liabilities of the business. Information could be lifted from the statement of changes in equity supplied and the notes and then presented in a limited company accounts format. This seemed to cause many problems with debentures being included within the equity calculation. The 5% bank loan needed to be included in the current liabilities as it is redeemable in May 2019 and within one year of the financial year end.

The layout of this type of statement should be as familiar as those of the sole trader and partnerships.

(d) Reasons for making a transfer to the general reserve were well answered.

(e) and (f) Required knowledge of and the differentiation between ordinary and preference shares. Most candidates had a good understanding of the differences between the two categories of shares although weaker answers for example ‘preference shares are paid first’ needed further clarification such as’ in the order of paying dividends’ or ‘in the event of liquidation’.

The differences between cumulative and non-cumulative shares was not well answered with many candidates suggesting incorrectly that the longer the cumulative share was held by the shareholder the higher the dividend received.

Question 4

(a) The calculation of three fundamental profitability ratios such as the mark-up, profit margin and return on capital employed form the basis for assessing performance and carrying out key indicator analysis for this business.

After calculating gross profit and net profit there were many correct ratio calculations. Correct answers for the mark-up and profit to revenue ratios were expressed as percentages whilst return on capital (ROCE) was occasionally treated as a liquidity calculation and expressed as a ratio of x: 1. It is important to emphasise the importance of reading the instructions on how to present calculations for a ratio analysis question as weaker answers did not calculate to two decimal places.

(b) Candidates were required to prepare a revised income statement after adjusting for higher levels of revenue, mark-up and changes in expenses, interest and depreciation over the year. Often candidates arrived at an incorrect gross profit or did not increase expenses and / or omitted depreciation from the revised statements.

(c) Candidates who had knowledge of the capital statement of a sole trader could answer this question. Any increase in capital will be caused by any profit earned or reduction in the level of drawings over the year. Many candidates thought that since the loan had increased it followed that capital had increased. This logic is incorrect as it would not result in an increase in Linrae's capital.

(d) Candidates were required to calculate mark-up and return on capital employed ratios utilising profit arrived at in part **(c)**. Credit was given for own figure calculations.

(e) Comments based upon ratios calculated in part **(e)** using own figures were generally well answered. Stronger responses recognised that ROCE had improved over the year even though capital employed had increased by a further $50 000.

Question 5

(a) This question with the accompanying current accounts and statement of financial position was very well answered with candidates being well prepared and statements being presented to a generally high standard. Common errors were on commission receivable either being charged as an expense or the accrued income of $1750 was omitted.

Another common error was the deduction of interest on drawings instead of adding to the profit for the year. Many candidates also calculated interest on capitals and this was incorrect. The partnership agreement stipulates the terms of the partnership and there is a clear need to read the question/terms of the partnership carefully at all times.

(b) The question was well answered by most candidates. A common error was not entering the payment of a salary as a debit to Khin's account.

(c) The standard of presentation of statement of financial position for a partnership was very high.

Strong candidates remembered to subtract the unrecorded cheque from the bank balance to arrive at an overdraft figure of $1600. Weaker candidate's recorded positive cash at bank balance of $5200 with an overdraft balance of $6800 or omitted it completely.

PRINCIPLES OF ACCOUNTS

Paper 7110/22
Paper 2

Key messages

The paper assesses candidate's knowledge and ability to record, report, present and interpret accounting information. A firm grounding in the knowledge of business documentation and how they are recorded into an accounting system (AO1) provides the platform for candidates to perform well across the assessment objectives.

Analysis (AO2) and evaluation (AO3) skills draw upon this knowledge base and will produce high grades and confidence for candidates to progress in both higher qualifications and future chosen careers.

General comments

Basic numeracy and accuracy in recording skills are essential for data entry into any accounting system. The calculation of interest on drawings in **Question 3(c)** applying a set percentage of 10% on partners drawings was an easy calculation but was often followed by an incorrect total with zero's being omitted or an extra '0' being added.

The accepted terminology for recording accounting data is 'the date', the 'account narrative' and 'the amount'. It is essential for candidates to know this terminology.

Comments on specific questions

Section A

Question 1

(a) The preparation of a corrected trial balance is a mechanism for checking mathematical accuracy using the balances taken from the ledger accounts. The ability to identify debit balances (assets and expenses) and credit balances (liabilities and revenues) is fundamental to understanding how transactions are recorded and analysed. Four errors required correcting ranging from incorrect inventory being used, to the reversal of rent receivable, bank overdraft and motor vehicle expenses.

Many candidates did not appreciate that the totals should agree, or were unable to arrive at a total balancing figure.

A good understanding of how the trial balance is produced is an good aid to link with the development of applying knowledge to double entry bookkeeping.

(b) Candidates were required to update an expense account and a supplier of services account using opening balances, an invoice from the supplier, and an estimated prepayment.

Often the only marks gained were for two opening balances, and the rest of the information was omitted or incorrect detail was given. Invoice and Roshan were incorrect narratives seen regularly. Transfer to the income statement from the computer maintenance account was often not made.

(c) The question assessed the knowledge of the relevant book of prime entry and related business documentation to the disposal of a non-current asset. A common error was to misidentify the 'general journal', the 'sales invoice' and 'statement of account'.

(d) The calculation of the profit or loss upon disposal of an asset should have been straight forward. The logic is to deduct the net value of the asset (cost minus accumulated depreciation) and then compare with the sale proceeds.

Question 2

(a) Most candidates got at least two of the three errors correctly. The first error was one of original entry as $1500 had been posted to both purchases and PP Limited accounts and this was often answered incorrectly.

(b) The question required the correction of these errors using appropriate journal entries. This was generally well answered. Weaker responses included entries wrongly to a suspense account. Again the importance of correct narratives need to be stressed to candidates as they act as a signpost to auditors in both manual and computerised systems where the corrections are located.

(c) This question required the preparation of columnar trading accounts for two departments. The presentation is exactly the same as for a sole trader.

Weaker candidates did not appreciate that the figures from part **(b)** had to be used and were not able to apportion direct expenses in proportion to the level of sales made. This led to many accounts being incomplete.

A common error for many candidates was to refer to the result of the accounts as 'net profit' or 'profit for the year'.

Question 3

(a) This question was very well answered with sharing profits with the additional partner and the possibility of disagreement or conflicts arising being popular answers.

(b) Many candidates found this question very challenging. The entries required the calculation and recording of intangible assets into the partnership. Goodwill is not retained within the books of the new partnership and the entry to remove the intangible assets is to debit the capital accounts at the new profit sharing ratio and credit it at the old profit sharing ratio.

The capital account should record any additions or changes to capital such as the loan and new capital introduced. Weaker candidates often placed them on the wrong side of the account. The most common error was to treat the capital account as a current account with entries being made for interest on drawings, interest on capital and share of profits incorrectly.

(c) Most candidates produced an appropriation account that started with profits of $24500 or adjusted correctly by removing the loan interest of $400 to Lodini. The interest upon drawings was calculated well although a common error was to deduct the interest on drawings and the interest on capital figures onto their own profit figure. A further error was to take opening capital balances as the base for calculating interest upon capitals.

(d) The accounting entity principle is textbook knowledge that accountants apply. 'The business is treated as being completely separate from the owners of the business, their personal assets and personal spending do not appear in the accounting records of the business'.

Whilst many well prepared candidates had no problem there were a number of candidates guessing incorrectly that it meant a set of rules of adhering to the partnership agreement.

Question 4

(a) Many candidates correctly calculated the two ratios although correct answers for the quick ratio were often incorrectly expressed as percentage. Some candidates did not calculate their answer to two decimal places. It is important to emphasise the importance of reading the instructions on how to present calculations for a ratio analysis question.

(b) The question required candidates to use the ratios calculated in part **(a)** to comment on the liquidity of Hemma's business.

Weaker candidates would often refer to increases or decreases between the two ratios and were unable to comment upon a high level of trade receivables in relation to the level of trade payables.

Similarly although the business had a satisfactory quick ratio the high levels of trade receivables could be a possible cause for running a bank overdraft.

(c) The question required the calculation of four working capital balances starting with closing inventory. The question required knowledge of mark-up and margins. The relationship between a 50% mark-up on cost is a gross profit margin of one third. This allows the cost of sales to be calculated and the closing inventory to be calculated by reconstructing the trading account.

Trade receivables and trade payables are calculated by adjusting for the opening balances and receipts and payments respectively and then by deducing the closing balances using either a control account or logical calculation approach. The bank balance is determined using the same method.

These techniques are used in preparing accounts from incomplete records and regularly in practice for budgeting purposes.

(d) The effects upon working capital were generally not well answered. The initial movement of – $15 was an easy mark but the second and third impact was often incorrect. This style of question linked to the effect upon capital and profit is used often and candidates benefit from practice that will improve their understanding of short and long term capital movements.

Section B

Question 5

(a) This question with the accompanying statement of financial position was very well answered with candidates being well prepared and statements being presented to a very high standard. The common error related to rent received with $150 outstanding. This represented accrued income and therefore increased the income and was also carried down as a current asset.

The disposal of $1800 credit was often shown as an expense incorrectly and there was a tendency to overlook the extra calculation of $3 000 depreciation on the purchase of a new motor vehicle for $12 000 which meant that depreciation of $7500 was a frequent answer.

(b) The statement of financial position was prepared well by most candidates. The regular items missed were the addition of the new non-current asset, increasing motor vehicles to $52 000. Other receivables for rent receivable outstanding for an additional $150 needed to be added to the prepayment for rent payable.

The bank balance was shown as $13 350 and should have been reduced by $12 000 for the unrecorded cheque issued to purchase the new motor vehicle.

Drawings were mainly treated correctly with adjustments being made against purchases and added to the owners' drawings being deducted from capital at the year end.