

# PRINCIPLES OF ACCOUNTS

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**Paper 7110/11**  
**Multiple Choice**

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

## **Key Messages**

Those candidates who had a good knowledge of the subject were able to apply that knowledge to the situations described in the multiple choice items.

Candidates are advised to read each item very carefully before attempting an answer. This ensures that an important word or phrase is not overlooked.

## **General Comments**

The mean marks were 14. One item proved to be easier than anticipated and two items proved to be more difficult than anticipated.

## **Comments on Specific Questions**

### **Item 4**

The majority of candidates understood that the total of the sales journal would be credited to the sales account, but only some candidates also realised that the total of the purchases returns journal would be credited to the purchases returns account. In both instances the goods are leaving the business so must be credited.

**Item 5**

This was a straightforward item to candidates with a good knowledge of double entry. From the payer's viewpoint, the discount was discount received so the discount received account should have been credited and the supplier debited.

**Item 6**

A significant number of candidates found this question challenging. The bank statement would have shown a smaller balance than the cash book because bank charges had already been deducted, and would also show a smaller balance because deposits had not yet been credited by the bank. This means that the balance on the bank statement should have been \$2838 (\$3204 - \$78 - \$288).

**Item 8**

Most of the candidates understood that the purchases would be overstated by \$900 because of the error. If an invoice is overstated by \$900 in the purchases journal it will also be overstated in the account of the credit supplier, so in the trial balance the trade payables would be overstated.

**Item 9**

At the end of the financial year the commission received is transferred to the income statement by debiting commission received and crediting income statement. Applying the matching principle, only the amount relating to that particular financial year (\$4640) is transferred to the income statement.

**Item 13**

A significant number of candidates indicated that interest charged would appear as a debit entry and seemed unsure whether it affected the credit customers or the credit suppliers. Interest charged on an overdue account increases the amount owing to the supplier so will appear as a credit entry in the purchases ledger control account.

**Item 15**

The inventory should have been valued at the lower of cost (\$100 000) and the net realisable value (\$70 000).

**Item 17**

The majority of candidates understood that the capital would increase by \$2000 and that the liabilities would increase by \$5000. Only some candidates appreciated that the assets would increase by \$7000. Applying the accounting equation candidates should have realised that the assets must equal the total of the capital and the liabilities.

**Item 18**

When a trader takes goods for personal use, this is deducted from the purchases so the gross profit and the profit for the year will increase. The final figure of capital will not be affected as the profit for the year has increased and the drawings have increased by the same amount.

**Item 20**

Few candidates provided correct response to this item. When a partner makes a loan to the business the loan interest is an expense to the business which is debited to the income statement.

**Item 23**

Candidates did not perform well on this question. Drafting a "T" account for the total trade receivables may have helped candidates calculate the missing figure of credit sales.

**Item 24**

Statement of changes in equity shows the changes which have taken place in the share capital, retained earnings and general reserves during the financial year. Proposed ordinary share dividend will not appear in such a statement as it is only a proposal and has not actually taken place.

**Item 27**

The wages actually paid to employees of \$7500 would be credited to the bank and debited to the wages account. The statutory deductions (\$1750) would not be paid to the authorities until the following month: until that time it is a liability so is credited to the statutory deductions account and debited to the wages.

**Item 29**

It was expected that candidates would be able to correctly calculate the profit as a percentage of capital employed. A significant number used the owner's capital rather than the capital employed. The total of the capital employed can be calculated by adding the long term loan to the capital. An alternative calculation is to deduct the current liabilities from the total assets.

# PRINCIPLES OF ACCOUNTS

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**Paper 7110/12**  
**Multiple Choice**

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

## **Key Messages**

Those candidates with good knowledge of the subject were to use that knowledge by applying it to the situations described in the multiple choice items. A thorough knowledge of the use of the ledger and the double entry system is essential for performing well on this paper.

## **General Comments**

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

## **Comments on Specific Questions**

### **Item 3**

This involved an understanding of the effect of entries in ledger accounts. Many candidates showed a lack of understanding of ledger entries.

### **Item 4**

The majority of candidates understood that a debit note and a credit note would be involved. Reading the question carefully, candidates would see that the document was issued by the customer and so would be a debit note.

### Item 6

Almost half of the candidates appear to incorrectly believe that a dishonoured cheque is a bad debt. The entries for a dishonoured cheque are a credit to the bank and debit to the customer (i.e. the reverse of those made when the cheque was received).

### Item 7

The question required candidates to have a good knowledge of double entry. From the payer's viewpoint, the discount was discount received, so the discount received should have been credited and the supplier debited.

### Item 8

It was expected that the majority of candidates would understand that prepaid expenses are represented by a debt balance on a ledger account.

### Items 9 and 10

These items involved interpretation of entries in a ledger account. Candidates required a good knowledge of double entry in order to select the Keys (C for Item 9 and A for Item 10).

### Item 11

Drafting a "T" account may have helped candidates understand that both the opening prepayment and the closing accrual had to be added to the amount paid in order to calculate the expense for the year.

### Item 14

The depreciation had to be calculated on the closing net book value of the machinery, so the net book value of the machine sold had to be deducted from the total net book value of all the machinery at the start of the year. The 20% depreciation should have been calculated on \$33 440 (\$36 000 – (\$4000 – \$1440)).

### Item 16

This item involved an understanding of ledger accounts. Interest charged on an overdue account increases the amount owing to the supplier so will appear as a credit entry in the purchases ledger control account.

### Item 17

The inventory should have been valued at the lower of cost (\$240) and net realisable value (\$260 – \$30).

### Item 18

Instead of using the closing owner's capital, as instructed, many candidates incorrectly used the opening capital.

### Item 19

The majority of candidates incorrectly included the owner's cash drawings as a business expense. A significant number did not include the amount owing by customers (\$1720) in the revenue for the year.

### Item 21

Goodwill is credited to the partner who introduced that asset to the new business. When goodwill is written off it is done so in the profit-sharing ratios. This means that X's capital would be \$30 000 – (2/3 x \$9000) and Y's capital would be \$29 000 – (1/3 x \$9000).

**Item 22**

In order to calculate the subscriptions for the year, it was necessary to add the closing accrual and deduct the closing prepayment from the amount received.

**Item 23**

It was anticipated that candidates would understand that the purchase of equipment by a sports club is capital expenditure. This will be included in the receipts and payments account and the statement of financial position but not the income and expenditure account.

**Item 24**

Drafting a “T” capital account may have helped candidates to determine the formula for the calculation of the profit for the year.

**Item 25**

It was anticipated that the majority of candidates would be able to calculate the total sales. Once again, drafting a “T” ledger account could have been of assistance. Such an account for credit customers would have revealed credit sales of \$8700. Adding on the cash sales would have given total sales of \$35 500.

**Item 28**

The vast majority of candidates correctly calculated the cost of sales at \$60 000 and made the correct adjustments of the opening and closing inventories, giving a figure of \$54 000. The adjustment for the goods taken for personal use caused problems: the \$7000 should have been added back to get the actual purchases of \$61 000. Drafting out a trading account may have helped candidates to determine the correct treatment of the items.

# PRINCIPLES OF ACCOUNTS

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Paper 7110/21

Paper 2

## Key Messages

Candidates who performed well on this paper were well prepared and practiced in the accounting techniques of producing ledger accounts with appropriate detail such as dates, narratives and figures. Well prepared candidates were also able to apply these skills within a small business context and record transactions for a supplier and related expense account.

In addition to these skills the better performing candidates produced well presented formal accounting statements such as partnership appropriation and current accounts and sole trader income statement and statement of financial position.

## General Comments

Candidates are required to have a broad knowledge of how information flows through an accounting system. This should be further supported by a knowledge of the different types of revenues and expenditures and the resulting impact upon capital and assets.

## Comments on Specific Questions

### Question 1

The question required knowledge of detailed book-keeping for a small business and the application of knowledge to determine capital or revenue receipts and expenditure.

Parts **(a)** to **(c)** were generally not well answered. Many candidates used incorrect narratives such as fuel and tyres instead of motor expenses or Carston garages. Many candidates did not deduct trade discount.

Well prepared candidates answered **(d)** and **(e)** well. They explained the two terms and correctly classified the listed transactions as capital or revenue receipts and expenditure.

### Question 2

Good responses clearly depicted that the candidates understood the purpose of writing up the journal and resolving a suspense account balance. This an essential skill that is used for resolving errors on manual and accounting systems. Part **(a)** required the journal entries to correct single entry errors. Most candidates answered this well. Some candidates did not post them correctly through into the suspense account in part **(b)** or show the effect on profit of correcting each error in part **(c)**. Part **(d)** was answered reasonably well.

### Question 3

Most candidates were well practiced in the production of partnership appropriation accounts and the related transactions that linked to the partners current accounts.

Most candidates answered part **(a)** well. A common error was not deducting loan interest to arrive at profit before appropriation. The result of this error was incorrect calculation of interest on capital for Barry. Part **(b)** was also answered reasonably well.

In part **(c)** many candidates said that partnerships automatically made for better decision making. This is not always the case, and opportunities to discuss decision making was a significant difference on this point.

#### Question 4

The question required a reconstruction of a trading account and incorporated a knowledge of gross margins and mark-up and their calculation.

Candidates varied on their performance on parts **(a)** and **(b)** of this question.

Good responses could reconstruct a trading account using the information given and gross profit calculated as 40% of the the cost of goods sold. The key ratios of inventory turnover, working capital and quick ratio are standard calculations. Even after allowing for own figure workings many weaker candidates could not derive answers to these ratios which was disappointing.

Own figures and related comments were awarded but weaker candidates who were unable to calculate basic ratios were limited in terms of performing well on their written comments in part **(c)**.

#### Question 5

The question required a thorough knowledge of the skills necessary to produce formal accounting statements for a sole trader. The full range of accounting adjustment techniques were assessed and needed to be applied across both the income statement and statement of financial position consistently.

Most candidates performed well on this question. Common errors were to calculate rent and interest on bank loan incorrectly and a not reducing the cash and bank balance by \$3000.

The bank loan should have been shown under a heading of non-current or long-term liabilities in the statement of financial position.

# PRINCIPLES OF ACCOUNTS

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Paper 7110/22

Paper 2

## **Key Message**

Candidates who performed well on this paper were well prepared and practiced in the basic principles of accounting techniques of preparing ledger accounts with appropriate detail such as dates, narratives and figures. These candidates were also able to relate transactions to cash books and control accounts and the role they play as control documents within all accounting systems.

In addition to a strong foundation of these accounting skills, better candidates were able to produce well presented formal accounting statements such as manufacturing accounts, income statements and statements of financial position in a structured order that is essential to all users of internal and external accounts.

## **General comments:**

Candidates should have a broad knowledge of how information flows through an accounting system, being able to replicate the control procedures in place and then to generate the final outcome statements from the system.

## **Comments on specific questions**

### **Question 1**

- (a) Whilst good answers were seen, many candidates attempted to include all transaction within the cash book. Many did not include basic information such as dates, the name of the debtor and just entered 'dishonoured cheque'. The balance brought down was often incorrect.
- (b) Some candidates answered this question correctly. Many candidates included everything, or just listed figures without supporting details.
- (c) Generally well answered but a common error was simply to state 'invoice' instead of 'sales invoice' in (ii).
- (d) The ledger account was sometimes reversed. Some candidates made references to purchases/purchase returns rather than sales/sales returns. The trade discount was often incorrectly included in the account. A common error was to include the returns at the list price not the price after trade discount. Dates were often omitted. Many candidates inserted a balance in the account as well as writing off a bad debt.
- (e) Own figure entries were allowed, but many candidates incorrectly tried to transfer bad debts to the income statement.
- (f) This part was well answered by most candidates.

## Question 2

The question focused on sales ledger control accounts and how errors would be resolved using a suspense account linked to the practical skill of resolving them through journal entries.

- (a) Common errors were the use of incorrect narratives in the sales ledger control account such as receipts and interest was shown as a credit entry.
- (b) This was generally well answered.
- (c) Generally well answered although a common error was not doubling the entry for the transaction of discount allowed and R.Biggs.
- (d) Most candidates were able to provide a reason why a trader may use a suspense account.

## Question 3

- (a) Many candidates provided good responses to this question. Poor responses included entering finished goods or office items or lacked key labels such as 'prime cost' and 'cost of production'.
- (b) All candidates were awarded full marks due to a date error in the original question.
- (c) Most candidates answered this part correctly.

## Question 4

- (a) Candidate responses varied on this question.

Many candidates did not correctly work out the cost of sales and therefore did not calculate the inventory figure accurately. The calculation of the expenses proved challenging to some candidates. Many candidates calculated the working capital and quick ratios correctly while others found these ratios challenging.

- (b) Candidates performed reasonably well on this part.

## Question 5

- (a) Most candidates answered this question well.

Many candidates did not calculate the advertising expenses correctly (but correctly calculated the distribution costs). Depreciation on lease was often given as \$3000 instead of \$4000. The amount of the loan interest was sometimes incorrectly stated. Some candidates incorrectly included loss on disposal with other income.

- (b) This part was also answered well by most candidates. Common errors were to include all the loan as a non-current liability and to omit accruals and prepayments from the correct section of the statement of financial position.