

PRINCIPLES OF ACCOUNTS

Paper 7110/12
Multiple Choice

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

Key messages

It is important the candidates have a thorough knowledge and understanding of all the topics on the syllabus.

Candidates are advised to read through each item very carefully before selecting an option on the answer sheet. This will ensure that they know exactly what is required.

General comments

Those candidates with a thorough knowledge of double entry book-keeping were able to select the correct key in many items on the paper. A few items proved to be more challenging than anticipated.

Comments on specific questions

Question 3

If a credit customer settled his account after deducting cash discount, both the assets and the capital will decrease. Rent received in advance will not affect the assets. A business loan repaid from the owner's bank account will not affect the assets. The key was option **B**.

Question 4

The majority of candidates incorrectly selected option **C**. The stem stated that the vehicle was purchased using a cheque from the owner's personal bank account so the double entry would be debit motor vehicles account and credit capital account.

Question 5

This should have been a relatively straightforward item. The value of the invoice issued would be \$360 (10 chairs at \$40 each less trade discount of 10 per cent).

Question 6

When a customer informs a supplier about an overcharge he issues a debit note requesting a reduction in the invoice. There seemed to be a considerable amount of uncertainty about the use of business documents.

Question 7

Many candidates correctly calculated that the balance on the bank column in the cash book would be \$200, but there was some uncertainty about the nature of that balance. After entering the dishonoured cheque the overdraft would be \$200, so the key was **B**.

Question 9

The amount of personal expense, \$34, would be transferred from the expense account and debited to the drawings account. The remaining amount of \$306 representing the expense for the year would be transferred from the expense account to the debit of the income statement. The key was **A**.

Question 10

An account of a credit customer, Syed, in the ledger of Amna was provided and candidates were required to interpret the entries in that account. Option **B** was the only correct statement.

Question 12

The majority of candidates correctly calculated that the tenant owed \$180 which represented two months' rent. Once again there was some doubt about whether this was a debit or a credit balance. If a tenant owes rent it is an asset to the business so is a debit balance. The key was **D**.

Question 14

The majority of candidates understood that reducing a provision for doubtful debts affected the provision account and the income statement. Those candidates with a thorough understanding of double entry correctly selected the option **B** as the key.

Question 17

Those candidates who read the item carefully realised that they were required to select the statement which was incorrect. Many candidates incorrectly selected options **C** and **D**, both of which were correct statements. Key was **B**.

Question 18

Many candidates considered only the effect of the cost of the repairs being incorrectly recorded and did not consider the calculation of the depreciation. By including the \$400 repairs in the asset account the depreciation would be overstated by \$80 ($20\% \times \400). Correcting the error would result in both the book value and the profit going down by \$320.

Question 20

It appeared that many candidates incorrectly interpreted the question as being about contra entries in a cash book rather than contra entries in a control account. Information for control accounts is obtained from books of prime entry. The general journal is the book of prime entry where inter-ledger transfers are first recorded.

Question 21

Writing off a bad debt would reduce the draft profit and an adjustment for rent prepaid would increase the draft profit. The corrected profit was \$36 300 (option **C**).

Question 22

Capital employed represents the total funds being used by the business and the formula for calculation is either total assets minus current liabilities, or capital plus non-current liabilities. It was expected that the majority of candidates would correctly calculate the capital employed as \$69 000 (option **C**).

Question 23

Candidates should appreciate that any appropriations such as partner's salary are deducted from the profit for the year before the residual profit is divided between the partners. A significant number incorrectly shared the profit for the year and then added Sara's salary to calculate her total income. The key was **C**.

Question 25

Many candidates did not seem to appreciate the fact that, from the viewpoint of a sports club, subscriptions in advance are a liability and subscriptions in arrears are an asset. The total of the current liabilities was \$300.

Question 26

It is important that candidates understand the difference between margin and mark-up. Many answers were based on calculations using margin rather than mark-up.

If the mark-up is 25 per cent then the selling price is 125 per cent.

The cost of sales can be calculated as $\frac{100}{125} \times \$300\,000$. The key was **D**.

PRINCIPLES OF ACCOUNTS

Paper 7110/22
Paper 2

Key messages

The paper demands a good knowledge and understanding of the principles and purposes of accounting for a range of businesses and non-trading organisations.

There is a clear need for candidates to have an overview of how an accounting system records data from basic documentation, into books of prime entry and then onward into the accounts before ultimately being processed into financial statements. This overview provides transferable skills when progressing from manual onto a computerised accounting system.

The examination tested such an overview of accounting in the first question and progressed to recognised checking techniques of the trial balance and the standard method of correcting errors through the journal. Candidates were well prepared in producing financial statements for a manufacturing organisation. This level of ability could be developed further into areas such as interpreting financial statements by the use of ratio analysis techniques.

General comments

Candidates performed well in answering the tabular style of question in **1(b)**, although this was not supported by the general accounting knowledge style of information required in **1(a)**. The production of the trial balance and the components required and journal entries were often well answered. The linkage between the two activities however was often missed.

The knowledge regarding limited companies and the layout of the equity and liabilities section needs more practice. This also applies to standard ratios such as percentage of profit to revenue and return on capital employed. Candidates would often make comments on these ratios from a predetermined response in place of considering the implication from their numerical answers from **4(a)** and **(b)**.

The final question requiring the preparation of financial statements was well answered.

Comments on specific questions

Question 1

- (a) The question required general book-keeping knowledge, the location of the account within the ledgers and the document sent out when a sales return is recorded. Many candidates were unable to identify a 'running balance' ledger or calculate the amount of discount taken from the net receipt.

- (b) The tabular style of question required the identification of the book of prime entry, the account debited and credited, and the effect upon capital from the three transactions. Marks were readily obtained except in the case of the general journal entry and two from three of the capital movement marks.
- (c) Most candidates answered this question well. Some candidates stated it would be 'error free' and fraud would 'not be possible'. All accounting systems rely upon operator input and perhaps a reasonable comment would be that ICT has the potential to reduce these weaknesses.

Question 2

- (a) This question was well answered with most candidates gaining two or three marks. These are standard types of errors that require adjustment. Commission and principle were often confused by weaker candidates.
- (b) The correction of the entries through the journal was a popular question for achieving four marks and above. The calculations were easily identified and only transaction (4) required a doubling of the amount posing a challenge for some candidates.
- (c) This part of the question required candidates to make the link following their answers to **part (b)** and adjust the entries into the corrected trial balance. Sales, purchases and the addition of fixtures were often omitted or adjusted incorrectly. Own figure marks were awarded but in many cases answers demonstrated a lack of an overview of how the process of correcting errors are carried out in practice.

Question 3

- (a) The differentiation between called-up and paid-up share capital was not clearly made. Emphasis needed to be placed upon the 'total amount requested' and 'that amount that had been received'.
- (b) This part of the question required three differences between debentures (fixed interest bearing loans) and ordinary shares. This was generally well answered. Vague answers such as debentures are paid first needed to specify under what circumstances for example when in a 'winding up' scenario.
- (c) Both calculations proved challenging for candidates.
 - (i) Equity consists of ordinary share capital plus any general reserves and retained earnings. Many candidates knew this but calculated it at the end of the year instead of at the beginning and the incorrect answer of \$255 500 was seen regularly.
 - (ii) The second calculation required the dividend paid on ordinary shares in cents per share. This caused considerable problems. The dividend paid is taken from the statement of changes in equity given in the question (\$3000 + \$4500). The total dividend is then divided by the number of shares in issue 150 000 given at the start of the question. This would appear to be an unfamiliar ratio that requires future consideration and practice.
- (d) There were a range of well-known and established reasons for carrying out this transaction and the mark was easily gained. Weaker candidates offered vague answers such as 'for savings' or for 'future use'. There had to be a clearly identified reason to gain this mark.

- (e) Candidates were required to produce an extract restricted to the equity and liabilities section of the statement of financial position. This was challenging for many candidates. Often the non-current assets and current assets were included but not required and often confusion between the categories of non-current liabilities and current liabilities with the loan and the 5% debentures being mixed between the sections. The correct narrative of 'Total equity and liabilities' was rarely seen.

The layout of this part of the statement and its various components need to be accurately identified.

Question 4

- (a) This question generated a wide range of answers. Stronger responses gained five marks but often after the calculation of the gross profit many candidates used using an incorrect multiplier and arrived at an incorrect revenue figure. This error was carried through into the ratio answers, but own figure marks were awarded.

Weaker responses did not know how to express their answers as a % or an actual ratio to 1.

- (b) This part of the question was answered better than **part (a)** with cost of sales being calculated correctly. As above often an incorrect multiplier was then applied and an incorrect revenue derived, in some cases often less than the cost of sales. This technique is used regularly for setting budget statements in practice and candidates need to be familiar with its application.
- (c) Often candidates would gain two of the four marks available by referring to increased profit and reduced expenses. Stronger responses showed a connection between the numerical impact upon profit following the increase in 'mark-up' and the relative percentage increase in profit for the year to revenue.
- (d) The question asked for the accounting principle or concept that should be applied to the four scenarios. Some answers were seen where principle/concept were entered in place of the appropriate name.

Question 5

- (a) Overall this question was answered well by most candidates. The apportionment of overheads between factory and office was well handled and presentation was generally of a high standard. Weaker candidates did not understand the nature of a manufacturing account and often attempted to prepare a combined version of an income statement.
- (b) The income statement was also generally well answered and presented. The reduction in the provision for doubtful debts was identified and added back to the gross profit. Candidates should not use abbreviations such as 'COS', 'GP' and 'PDD' as they are meaningless narratives to the general readers of financial statements.
- (c) The statement of financial position continued to be well answered. It is important to reiterate that the non-current asset section should have clear headings so that readers of these important statements have a clear indication of the net book value or the true worth of the assets. Candidates often concentrate on getting the figures correct and lose sight that the information supplied is detailed and informative. Marks for incorrect or missing narratives were lost accordingly.

Developmental points to note were incorrect inventory figures missing three categories, the bank adjustment of \$2800 was not carried out and shown incorrectly as a current liability, and the trade payable adjustment often added showing \$24 700 instead of \$19 100.