

PRINCIPLES OF ACCOUNTS

Paper 7110/12
Paper 12

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

Key messages

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

Candidates should read through each item very carefully before selecting an option.

General comments

One item proved to be slightly more challenging than anticipated and two items proved to be slightly easier than anticipated.

Those candidates with a thorough understanding of double entry book-keeping were able to select the correct key in many items on the paper.

Comments on specific questions

Item 5

The majority of candidates understood that both the amount of the cheque and the discount would be entered in the supplier's account. A significant number incorrectly believed that the discount was discount allowed. The payment had been made on the credit side of the cash book so the discount would be entered in the discount received column.

Item 6

The key was **D**. Accrued income is represented by a debit balance as it is an amount owing to the business and prepaid income is represented by a credit balance as it represents a liability to the business.

Item 8

Just over half of the candidates correctly selected the key, **B**, but the item proved a little challenging for the other candidates. If the purchases journal was overcast then the debit side of the trial balance would be overstated. Goods purchased from X incorrectly credited to Y is an error of commission and would not affect the total of the trial balance. The total of the credit column of the trial balance would be \$13 205.

Item 18

Capital employed can be calculated in two ways. It is the total of the capital and the non-current liabilities or it is the total of the non-current assets and the current assets less the current liabilities. The key was **D**.

Item 19

The majority of candidates correctly selected the key, **A**. Candidates should know that inventory is always valued at the lower of cost and net realisable value. The large t-shirts should have been valued at \$5 each and the small t-shirts should have been valued at \$3 each.

Item 20

Partners' drawings could be immediately discounted as these do not appear in an appropriation account. Of the remaining options, interest on capital and partners' salaries are deducted from the profit for the year and interest on drawings is added to the profit for the year. The key was **B**.

Item 25

This proved to be challenging for many candidates. The retained earnings for the year were \$7000 (profit for the year less dividend of \$4000 and transfer to general reserve of \$10 000). The total of the reserves at the end of the year was the retained earnings of \$7000 plus the general reserve of \$10 000. It must be remembered that the total of the reserves is not just represented by the general reserve.

Item 29

The difference between the gross profit/sales and the net profit/sales represents the expenses/sales. The percentage of expenses to sales decreased from 80 per cent $\left(\frac{32}{40} \times 100\right)$ in 2016 to 50 per cent $\left(\frac{20}{30} \times 100\right)$ in 2017. The key was **C**. No monetary figures were provided so it is not possible to say whether the actual amount of expenses increased or decreased.

Item 30

Spreading the cost of a non-current asset over the year which benefit from the use of that asset is an application of the matching/accruals principle whereby the revenue of the year is matched against the costs of the same period.

PRINCIPLES OF ACCOUNTS

Paper 7110/13
Paper 13

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

Key messages

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

Candidates should read through each item very carefully before selecting an option.

General comments

Candidates found two items particularly challenging. One item proved to be slightly easier than anticipated.

Those candidates with a thorough understanding of double entry book-keeping were able to select the correct key in many items on the paper.

Comments on specific questions

Item 2

This item proved challenging for many candidates. Reading the options carefully, candidates should have realised that in **A** and **D** the employee owed the loan and the interest on that loan – so these were assets from the point of view of the business. Rent receivable prepaid is a liability from the point of view of the business and this was the key.

Item 4

The majority of candidates knew that a credit note is issued when goods are returned, but many, incorrectly believed that a credit note received would be entered in the purchases returns journal. The key was **D**.

Item 5

Most learners understood that a dishonoured cheque would be entered in the bank account and in the account of Kate. Those candidates with a thorough understanding of double entry correctly selected **B** as the key.

Item 6

Most candidates found this question to be challenging. The cash book showed a positive bank balance. An unpresented cheque would mean that the bank statement showed a higher balance and an amount not credited would mean that the bank statement would show a lower balance. The bank statement would show a credit balance of \$130.

Item 8

The majority of candidates appreciated that at the month end Ann would be indebted to Edward. The balance of Ann's account after entering the transaction of 29 April would be \$10 800 (option **A**).

Item 10

It was expected that candidates would understand that at the end of the financial year the rent relating to that particular year is transferred to the income statement. The rent payable for the year was \$3000 so this would be credited to the rent account and debited to the income statement (option **B**).

Item 11

The majority of candidates understood that there would be a year-end transfer from the provision for doubtful debts account to the income statement. The provision had to be increased by \$300 so it was necessary to debit the income statement and credit the provision account with this amount (option **A**).

Item 13

A suspense account is opened when a trial balance does not balance. Options **A**, **B** and **C** are errors which would be revealed by a trial balance so the key must be option **D**.

Item 15

James is obviously a customer of Henry so his account would appear in Henry's sales ledger. Henry has charged James interest so James' account would be debited. There would be a similar entry in the sales ledger control account.

Item 17

Capital employed can be calculated in two ways. It is the total of the capital and the non-current liabilities or it is the total of the non-current assets and the current assets less the current liabilities. The key was **D**.

Item 18

Candidates should know that inventory is valued at the lower of cost and net realisable value. The large t-shirts should have been valued at \$5 each and the small t-shirts should have been valued at \$3 each.

Item 20

Candidates found this question to be challenging. If a tenant pays in advance it is deducted from the rent receivable in the income statement. As a result the profit decreases. Income received in advance is a liability as Carol still has to fulfil an obligation. As a result the current liabilities increase.

Item 23

Debenture interest is a finance cost, which is recorded in the income statement. Only dividend which is actually paid during the year, irrespective of the year to which it relates, is recorded in the statement of changes in equity. The key was **C**.

Item 24

The retained earnings for the year were \$7000 (profit for the year less dividend of \$4000 and transfer to general reserve of \$10 000). The total of the reserves at the end of the year was the retained earnings of \$7000 plus the general reserve of \$10 000. It must be remembered that the total of the reserves is not just represented by the general reserve.

Item 27

If the closing inventory increases by \$100, the average inventory will be \$300. The increase in the closing inventory will decrease the cost of sales by \$100, so the cost of sales will be \$2400. The rate of turnover of inventory should be eight times.

PRINCIPLES OF ACCOUNTS

Paper 7110/22
Paper 22

Key messages

This paper assessed the candidates understanding of the principles and systems used in producing accounting information for a diverse range of organisations.

Well prepared candidates had a strong knowledge basis of recording techniques and control procedures such as 'bank reconciliation statements'. These skills are essential to the sound financial management of any business.

This basis of knowledge with understanding (AO1) enables good candidates to better understand the impact of errors upon profits (**Question 2**, AO2) and to be more able to effectively interpret business performance through the analysis of key ratios (**Question 4**, AO3).

Weaker candidates often concentrated only on the production of financial statements (**Question 5**).

General comments

Developmental areas for candidates to consider:

Practice recording skills such as entering correct dates, corresponding names of accounts within a double entry system, and the amount of the transaction and any appropriate discounts.

Update and record transactions through a bank account. Often this exercise is carried out on a daily basis depending on the size of the business. The control and security of monetary resources is paramount to any organisation and for this reason bank reconciliations are carried out regularly to ensure the integrity of data and demonstrate evidence of sound financial practice.

Calculate key performance ratios supported by developmental comments that indicate an understanding or reasoning why the figures had changed over the two year period. This area of the syllabus requires practice and lends itself to exploring local businesses performance.

Comments on specific questions

Question 1

- (a) Candidates found this question challenging. A common error was to enter transactions previously entered in April. Transactions from the bank statement which were entered into the cash book often had incorrect narratives such as credit transfer, dishonoured, or entered on the wrong side of the account. Credits on the bank statement are debits in the cash book an important distinction to take forward to the next part of the question.

- (b) The reconciliation between cash book and the bank's record using the statements provided is a regular control document. There are standard formats starting with the balance on bank statement (as requested in the question) or with the balance on the cash book. Marks were awarded for both forms of presentation and confirmation is arrived at by balancing back to the bank statement or cash book balance depending on the start point.

Weaker candidates had no idea of the purpose of this activity and could not extract the correct information. The listing of cheques not yet presented and amounts not yet credited should detail cheque numbers, names of customers, amounts paid and received. This detail helps transactions of cash and money resources to be checked and monitored regularly and indicates evidence to auditors of good financial practice as well as being a deterrent to possible fraud.

- (c) Many candidates did not attempt this question. Despite many payments being made by electronic transfer, many small businesses still issue and receive cheques to make a range of payments. For this reason candidates need to be aware that banks will not honour cheques or give value (dishonoured cheques) if they are not made out correctly or there are insufficient funds in the account to cover payment of the cheque. This action leads to a reversal in the book-keeping in the accounting system.

- (d) Generally well answered, the transactions required entering into a credit customer account in the books of Nuri. Common errors involved calculating discounts incorrectly, not taking trade discount off before entering the invoice amount (\$450 less 15%) as \$425.

In some instances candidates made the mistake of treating George as a supplier account which emphasises the need to read the question and instructions carefully.

- (e) This question required knowledge of the sub-division of the ledger and this underpins basic book-keeping skills.

Question 2

- (a) This was well answered by most candidates and required the identification of four types of error. A common incorrect answer to error 1 was one of transposition.
- (b) Required an explanation of 'why the trial balance agreed' despite four errors occurring. The key points were that debits and credits had been entered, and that the amounts entered were of equal value, so the trial balance will still agree. This posed some difficulty and weaker candidates often repeated the question.
- (c) The journal entries to correct the errors were very well answered with many candidates scoring maximum marks.
- (d) Many candidates provided correct answers to this style of question. Often conflicting numbers are given or numbers not shown in the correct column. A common answer for error 2 was to show an adjustment of \$60 only.

Question 3

- (a) This was generally done well with many correct answers. Most candidates scored high marks and often only one of the opening or closing balances on the subscriptions account/workings were omitted.
- (b) The main mistake candidates made in the clothing shop income statement was omitting the trade payables adjustment to purchases. Rent was often shown as \$230 as the need to adjust for the accrual had been missed.
- (c) The profit on the sale of tickets often included other income and the other payables of \$250 missed leading to an incorrect profit of \$300.
- (d) Required the candidate to combine the elements of parts a, b and c to arrive at the overall deficit for the club. The own figure rule applied and good marks were obtained. Common errors were the

recording of the sale of tickets and sports equipment instead of the profits calculated in parts **(b)** and **(c)**.

- (e)** Generally well answered, most candidates identified services that were owing to members in a future period.

Question 4

- (a)** Required candidates to calculate current assets by using the knowledge of the accounting equation and the working capital (current) ratio. This allowed the inventory to be calculated by difference. The techniques used in both parts are required when producing accounts from incomplete records and again the bank loan could be arrived at by difference.
- (b)** The quick ratio (acid test ratio) and the profit for the year to capital employed are key performance indicators for liquidity and profitability purposes. The quick ratio (acid test ratio) was generally well answered, however the second ratio the capital employed often did not include the bank loan. Parts **(a)** and **(b)** acted as good discriminators as candidates needed a wider knowledge base when arriving at the standard ratio calculations.
- (c)** This question required candidates to make comments based on their own ratio calculations with regard to the changes between the years and to further develop their answers by giving possible reasons for the change. Many answers lacked qualitative comments and often used terms such as 'increased' and 'decreased' which did not expand the information gained from the ratio calculation.

The second part of the question with reasons for the changes was generally well answered with statements supporting their earlier own figure calculations.

- (d)** The ability to develop the logic of the impact of changes of assets, liabilities, expenses and revenues upon working capital and the profit for the year is challenging. This activity tests the level of understanding of candidates and the links that the proposals will have for this business. There were rarely examples of maximum marks being obtained and often no marks gained for the effect on profit for the year.
- (e)** Candidates could generally state advantages of using international accounting standards (IAS) but many did not emphasise the improvement perspective. A minority of candidates clearly misunderstood the question and gave two advantages of ICT.

Question 5

- (a)** Income statements were clear and structured, demonstrating evidence of practice in the production of the financial statements in a suitably recognised format.

Common errors were incorrect calculation of bank loan interest, the inclusion of the disposal income as an expenditure item and adjusting the advertising prepayment accurately.

- (b)** The statement of financial position again was generally accurately constructed with minor errors such as not deducting bad debts from trade receivables and bringing forward incorrect own figures for bank interest and advertising as accruals and prepayments respectively.

It is timely to remind centres and candidates that the purpose of the financial statements is to inform owners and investors of the businesses as clearly as possible. For this reason detail and narratives should be recognisable to everyone. Examples such as 'current assets', 'current liabilities', 'cost of sales' and 'provision for doubtful debts' should not be abbreviated to 'CA' 'CL' 'COS' and 'PFDD'.

PRINCIPLES OF ACCOUNTS

Paper 7110/23
Paper 23

Key messages

This paper provides a good introduction to understanding the principles and systems used in producing accounting information for a diverse range of organisations.

Well performing candidates have a strong knowledge basis of recording techniques such as maintaining ledger accounts (**Question 1**), being able to accurately calculate non-cash expenses such as depreciation (**Question 2**), the ability to better understand the impact of errors upon profits and effectively interpret business performance through the analysis of key ratios (**Question 4**).

It is important that detail and narratives used within accounts and financial statements should be clearly recognisable. Examples such as 'current assets', 'current liabilities', 'cost of sales' and 'provision for doubtful debts' should not be abbreviated to 'CA' 'CL' 'COS' and 'PFDD' etc.

These skills are essential to the sound financial management of any business.

General comments

Candidates need to consider the following:

- 1 Practice recording skills such as entering correct dates, corresponding names of accounts within a double entry system, and the amount of the transaction and any appropriate discounts. Computer systems require data often to be entered using journal entries drawing upon this skill set.
- 2 Apply depreciation in regular scenarios such as the acquisition and disposal of assets and how to record them via the journal. This requires an organised approach to the calculation of the accumulated provision for depreciation and the appropriate transfer to a disposal account. Often candidates can carry out the calculation of the annual cost of depreciation for the final accounts but this depends on the extent of their knowledge of this topic.
- 3 Comment on calculated key performance ratios to demonstrate an understanding or reasoning why the figures had changed over the two year period. This area of the syllabus requires practice.

Comments on specific questions

Section A

Question 1

- (a) This question required a general knowledge of the documents used when recording financial information and where they are kept within the ledgers. Few candidates achieved high marks.
- (b) A simple discount calculation proved challenging to some candidates with the discount of \$6 being incorrectly calculated on the net bank figure received (\$144) instead of \$150.
- (c) This required the entering up of transactions between the capital and drawings account for Kusum, a sole trader. Personal transactions such as private insurance are common transactions for this type of business. Candidates need to understand the purpose of the drawings account and how

balances are transferred over from it and the income statement into the owner's capital account at the year end.

- (d) The distinction between accounting and book-keeping was generally well answered.

Question 2

- (a) and (b) Text book answers were readily given to the meaning of the concept of depreciation and most candidates could give two causes for the loss of value for a motor vehicle. The instruction to part (a) was to 'explain' and this requires more than a formula for straight-line depreciation.
- (c) The calculation of the profit on the disposal proved challenging, with extra depreciation being wrongly included in the year of disposal, or more often the answer of \$540 being shown as a loss.
- (d) Six marks were available for entering the correct journal entries. Many candidates did not perform well as the need for a transfer to a disposal account or the need to transfer the amount of accumulated depreciation for motor vehicle B was often missed.

Acquisition and disposals are regular occurrences in business and their entry into manual and computerised systems need to be practised.

- (e) Very few were able to adjust for an acquisition and disposal and then arrive at the depreciation charge for the year. The ability to do this exercise is essential to complete the year end accounting statements.
- (f) and (g) While (f) was answered well, candidates found (g) more challenging.

Question 3

- (a) This exercise is the start point when producing accounts from incomplete records. The opening capital figure is arrived at by using the accounting equation to find total assets and deduct liabilities.

All information was given in the question and was well answered.

- (b) This required a formal statement of affairs, the equivalent of a statement of financial position where a system of double entry records are not kept. The construction of the statement allows the closing capital again to be arrived at by difference. Marks were gained easily here but often the link was not made by weaker candidates that closing capital completed the statement.
- (c) The calculation of profit represents an important step as it can be deduced using opening and closing capitals and adjusting for drawings. Answers from parts (a) and (b) were used to arrive at the answer but as in (b), candidates frequently did not have an overview of the sequence required.
- (d) Performance of candidates varied on this part. One or two examples at the most were forthcoming, but it is worth emphasising the advantages as they underpin the whole rationale for keeping detailed accounting records.
- (e) Candidates had to distinguish between statutory and non-statutory deductions from net pay. This basic knowledge often became confused. Regular revision of these differences helps to reinforce preparation for this question and also part (f).
- (f) A framework of how to calculate net pay for an employee based upon basic and overtime rates of pay multiplied by the number of hours worked is applied to arrive at gross pay. This caused problems and suggested a knowledge gap for many candidates. Income tax was ignored or added to gross pay.

The second part asked for a calculation of the total cost of paying the employee. This needed the employer's contribution to be added to the gross pay figure. Often this contribution was deducted and an answer of \$1050 seen too regularly.

Question 4

- (a) The identification of accounting principles or concepts was a popular question and it was many candidates provided completely correct answers.
- (b) Gross and net profit were adjusted in total by four items that included an undercharge on carriage inwards, an incorrect valuation of closing inventory, omission of an accrual and prepayment and a change in the rate of depreciation. This type of exercise tests the range of ability for candidates to make adjustments linked to their knowledge of accounting concepts. A systematic approach to producing the revised figures was required. Answers were often not well presented and expenses frequently omitted.
- (c) The three profitability ratios, gross and net profit margin and return on capital employed were well answered with credit being given for own figure answers from part (b).
- (d) Required candidates to make comments on the changes to the profitability ratios over the two year period. Many answers lacked qualitative comments and terms used such as 'increased' and 'decreases' which did not expand the information gained from the ratio calculation.

Question 5

- (a) Candidates were well prepared for a range of adjustments necessary to prepare the income statement and appropriation of profits. Separate loans to the bank and a partner caused some difficulties. Common errors were the deduction of interest for the bank loan of \$4800 and often calculating interest upon drawings and capital then adding or subtracting them wrongly in the appropriation section of the statement.
- (b) Current accounts were well answered but still many candidates did not bring down their own balances on 1 May 2018 as instructed. Only the very well prepared candidates were aware that the loan interest of \$2000 should be credited to the Athula's current account and not shown as a current liability in the statement of financial position.
- (c) This question was well-answered. The main aspects to be noted are that some candidates did not account for the acquisition of new office fixtures for \$6000 at cost and the revised value of accumulated depreciation based upon the new total of \$33 000.

It is timely to remind centres and candidates that the purpose of the financial statements is to inform owners and investors of the businesses as clearly as possible.

Please refer to the published mark schemes as exemplars for teaching and learning purposes.