

# PRINCIPLES OF ACCOUNTS

Paper 7110/11  
Paper 11

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

## Key messages

It is important that 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.

## General comments

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 4

The key was selected by 41 per cent of candidate. Candidates selecting option **C** did not appreciate that the amount being paid represented the total of the invoices minus the credit note and minus 5 per cent cash discount. Those candidates selecting option **D** made the mistake of adding the credit note to the invoices and then deducting the cash discount.

### Item 6

Many candidates correctly selected the key, **C**. Reading the question very carefully should have enabled candidates to appreciate that the entries related were those which would appear in the account of Mandy, the credit supplier and were not intended to be the entries in the cash book. When Suzi settled the account the amount of the cheque paid by Suzi, \$190, and the cash discount, \$10, would both be debited to Mandy's account.

### Item 11

The majority of candidates correctly calculated that the balance on the rent account would be \$800 (2 months' × \$400 per month). As this amount was prepaid for the following financial year it would be brought down as a debit balance in the rent account on 1 April 2019. The key was **D**.

### Item 14

Most candidates correctly calculated the figure of \$1070 but only a total of 48 per cent correctly identified this as a profit on disposal. The book value of the motor was \$8000 – \$3120 depreciation (\$1600 in year 1 and \$1280 in year 2). The loss on disposal was \$1070 which represented \$5120 (book value) – \$4050 (proceeds of sale). Some candidates incorrectly based their calculation on the straight line method of depreciation.

### Item 16

This should have been a relatively straightforward calculation. The cost of sales for department Y was \$36 000 (purchases of \$40 000 – closing inventory of \$4000). Deducting this from the net revenue gave a gross profit of \$16 000. A number of candidates incorrectly included carriage outwards in the calculation of cost of sales. Carriage outwards is a selling expense.

### Item 17

A significant number of candidates did not recognise that goodwill is an intangible asset which appears in the non-current assets section in a statement of financial position.

### Item 19

The statistics indicate a degree of uncertainty of the effect of accrual and prepaid subscriptions. The \$12 600 subscriptions received during the year included the amount of \$800 which was accrued at the start of the year, so the amount received relating to the current year was \$11 800. During the previous financial year \$1300 subscriptions were received relating to the current year so these should be added to the amount received this year. At the end of the current year subscriptions still owing by members totalled \$1100. As these relate to the current year they should be added to the amount received. The subscriptions relating to the current year transferred to the income and expenditure account amount to \$14 200.

### Item 20

Many candidates correctly selected **D** as the key. The purchases for the year were \$7350 (the closing amount owed to suppliers of \$400 plus the amount paid of \$7200 less the opening balance of \$250). Adjusting the purchases for the decrease in the inventory resulted in a cost of sales figure of \$7450.

### Item 21

Candidates were required to calculate the credit sales of a trader who had not maintained a full set of accounting records. Many candidates successfully calculated the figure of \$46 000 (option B). Some reversed the opening and closing balances. The use of a T-account rather than an arithmetic calculation may have assisted candidates to treat the balances correctly,

### Item 22

Some candidates correctly identified **C** as the key. All the items listed are reasons why the bank balance is not equal to the profit for the year. Accrued expenses are included in the expenses in the income statement but are not included in the bank account as no money has been paid. Goods taken for personal use would be considered when calculating the gross profit but do not affect the bank account as no money has

changed hands. Depreciation is a non-money expense which affects the profit calculation but not the bank balance.

**Item 23**

A number of candidates did not seem to be familiar with the items in a statement of changes in equity. The retained earnings at the end of the year amounted to \$25 000. This represents the opening retained earnings of \$12 000 + \$43 000 (profit for the year) – \$10 000 (transfer to general reserve) – \$20 000 (dividend paid during the year).

**Item 28**

It was expected that candidates would be familiar with, and be able to apply, the formula for the calculation of return on capital employed (ROCE). The capital employed represents the total fund being used in the business. This can be calculated in two ways. It can be found using the formula non-current assets + net current assets. An alternative calculation is owner's capital + non-current liabilities. The key was 16 per cent which represents \$24 000 as a percentage of \$150 000.

# PRINCIPLES OF ACCOUNTS

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<p><b>Paper 7110/12</b> <b>Paper 12</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>C</b>	16	<b>A</b>
2	<b>A</b>	17	<b>B</b>
3	<b>C</b>	18	<b>B</b>
4	<b>C</b>	19	<b>C</b>
5	<b>D</b>	20	<b>B</b>
6	<b>A</b>	21	<b>D</b>
7	<b>A</b>	22	<b>D</b>
8	<b>C</b>	23	<b>B</b>
9	<b>A</b>	24	<b>A</b>
10	<b>B</b>	25	<b>C</b>
11	<b>D</b>	26	<b>C</b>
12	<b>D</b>	27	<b>B</b>
13	<b>A</b>	28	<b>C</b>
14	<b>B</b>	29	<b>A</b>
15	<b>A</b>	30	<b>D</b>

## **Key messages**

It is important that 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 answer.

## **General comments**

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

## **Comments on specific questions**

### **Item 4**

It was expected that candidates would understand that no entry is made for a debit note in the books of either the supplier or the customer. At the end of the month the balance of Meena's \$365 (the total of the invoices issued less the credit note and less the cheque paid). This was an amount owed by Meena to Ralph, so it would be a debit balance.

### Item 9

Many candidates correctly selected **A** as the key. This was an error of complete reversal so the totals of the trial balance would still balance.

### Item 10

The vast majority of candidate understood that the year-end transfer would involve a debit to the income statement and a credit to the wages account. Of these, some also understood that \$43 900 would be transferred (the amount paid during the year plus the accrual at the end of the year).

### Item 11

Creating a provision for doubtful debts ensures that both the profit and the current assets are not overstated and it is also an application of the matching/accruals principle. It does not ensure that money is available to cover bad debts. The key was **D**.

### Item 13

The key to this was **A**. An item of revenue expenditure was treated as capital expenditure so the expenses for the year would be understated, resulting in the profit for the year being overstated. This error also resulted in the non-current assets being overstated.

### Item 14

This item proved to be challenging for the majority of candidates. It was expected that candidates would appreciate that the advances in technology mean that computer equipment soon becomes inadequate (or obsolete) as newer and more advanced equipment frequently becomes available.

### Item 15

Many candidates appreciated that the annual depreciation on a non-current asset involves crediting the provision for depreciation account and debiting the income statement. Some also correctly understood that the amount to be transferred in the second year would be 20 per cent · (\$8000 – \$1600).

### Item 16

A cheque received from a trade receivable had been credited to the account of a trade payable. Correcting this would require a debit in the trade payable's account and a credit in the trade receivable's account. The effect of this is to decrease the amount owed by trade receivables and to decrease the amount owed to trade payables.

### Item 19

Many candidates selected the key **C**. Receiving a cheque from a credit customer to settle the amount owed less a cash discount result in the current assets decreasing by the total amount owed (\$2100). Paying the cheque into the bank would decrease the overdraft and so the current liabilities would decrease by the amount of the cheque (\$1995). Discount allowed is an expense so the capital would reduce by the amount of the discount (\$105).

### Item 20

The key was selected by many candidates. A credit balance in a commission receivable account indicates that commission has been paid in advance. This represents a liability as the business is under an obligation to provide a service for which it has already been paid.

### Item 22

Only some candidates correctly selected **D** as the key. The purchases for the year were \$7350 (the closing amount owed to suppliers of \$400 plus the amount paid of \$7200 less the opening balance of \$250). Adjusting the purchases for the decrease in the inventory resulted in a cost of sales figure of \$7450.

**Item 23**

Many candidates did not appreciate the effect of correcting an error of omitting to adjust the subscriptions received for an amount prepaid. The subscriptions income in the income and expenditure account would be decreased as some of the amount relates to the following financial year. In the statement of financial position the current liabilities would be increased as the club has an obligation to provide a period of membership for which it has already been paid.

**Item 30**

The majority of candidates correctly selected **D** as the key. A significant number incorrectly believed that using international accounting standards did not narrow the areas of difference between companies.

# PRINCIPLES OF ACCOUNTS

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Paper 7110/21  
Paper 21

## Key messages

The paper requires a sound knowledge of the techniques necessary to ensure that data is recorded accurately into an accounting system. Candidates need to be able to calculate percentages when checking and entering discounts allowed and received for example in assessment objective (AO1). Logic calculations and financial ratios are also used regularly as higher level skills (AO2) and (AO3) to explain and develop interpretative comments based on financial information and statements.

Candidates performing well had good book keeping skills and a clear understanding of the links to business documentation and regular checking methods used such as producing a bank reconciliation statement and resolving suspense accounts.

These techniques then form a sound basis for producing the formal accounting statements such as sole trader accounts and this further helps to develop understanding when explaining the impact upon business resources over an accounting period.

## General comments

Well prepared candidates demonstrated ability to complete ledger accounts although often narratives and dates especially in the cash book were not accurate. Formal accounting statements for business organisations such as a sole trader were well answered. Abbreviations such as 'gp' and 'cogs' are meaningless to anyone reading the accounting statements and could not be credited.

## Comments on specific questions

### Question 1

- (a) Candidates were required to enter opening balances and various cash and bank transactions into the cash book. The scenarios covered were a contra entry, a cheque returned marked as 'refer to drawer' and calculations related to discount allowed and discount received. This activity required accuracy in numeracy and in data entry. The required narratives were a date, name of the account to be recorded from the cash book transactions, and the amount being received or paid into cash or the bank.

Weaker candidates often reversed the recording of the transactions or used incorrect narratives such as dishonoured cheque or cheque received instead of bank.

- (b) The question required a simple classification of the cash book as both a ledger account and book of prime entry within an accounting system.
- (c) Where transfers are made between the cash and bank account (\$420) this is referred to as a 'contra' entry.

- (d) Two reasons why cheques are returned by the bank. The majority of candidates had a good knowledge of the reasons why cheques will be returned such as insufficient funds, incorrect detail or stale (out of date). Many small businesses still use cheques for payment as well as using electronic banking and this still remains an important part of recording bank transactions.
- (e) Cash discount is offered to encourage prompt payment or within a specified period.
- (f) The bank reconciliation statement is an auditable document that provides evidence that cash and bank transactions are being monitored and controlled effectively against the external bank records.

There are standard textbook layouts that ideally should be followed to demonstrate good accounting practice as it highlights missing payments, errors and unpresented cheques. A high number of candidates were unable to attempt or scored no marks on this section. It is an essential checking exercise that needs to be understood and applied in manual and computerised accounting systems.

### Question 2

- (a) This question started with five incorrect transactions that required correction using journal entries. The last two entries required the use of a suspense account due to an entry being omitted and differing values being entered with regards to the cash sale. Transactions 1 to 3 were generally well answered but numbers 4 and 5 seemed challenging for candidates.
- (b) The identification of the type of error was generally well answered with most candidates gaining two of the three marks. A common error was to identify the debiting of wages to rent payable as an error of principle. Both are expense accounts in the general ledger and therefore are an error of commission.
- (c) Following the identification of the errors in part (a), any journal entries that require a suspense account transaction needed to be posted to the suspense account. The purpose being to eliminate the balance on the suspense account and correcting the ledger accounts at the same time.

Own figures marks were awarded from part (a) but there appeared to be a general lack of understanding of the purpose and how to resolve the balance that has arisen on the suspense account.

- (d) Most candidates answered this question well.

### Question 3

- (a) This part of the question required the calculation of opening capitals in preparation for the formation of a partnership. The capital can be deduced by applying the accounting equation (Assets – Liabilities = Capital). Common errors such as not recognising the bank overdraft and the omission of goodwill for Caden meant that average marks between 1 and 2 were achieved.
- (b) Two reasons why a business can have goodwill were reasonably answered and good reputation and location were popular answers.
- (c) The majority of candidates answered this well, often quoting to avoid arguments and disputes in addition to the formal recording of profit share and areas of responsibility.



- (d) The questions required candidates to explore the differences between partner's capital and current account. Good answers simply emphasised that capital was fixed and the current account fluctuates with interests, salaries, drawings and share of profits or losses.

Parts (b), (c) and (d) all required textbook knowledge and well prepared candidates answered these well.

- (e) The question required the preparation of the capital accounts and the entries needed to remove goodwill from the account. This was not well answered. The routine is to debit the capital accounts with the goodwill at the new profit sharing ratio and credit goodwill at the old ratio (for Caden \$15 000).

This was often not considered and also many candidates did not realise that the opening capitals were their own figures they had calculated in part (a) of the question.

- (f) The completion of this partnership question was the appropriation of profits between the partners. Generally this part was well answered by most candidates. Own figure marks were given although a common error was to calculate interest on opening capitals rather than the closing capitals based upon answers from part (e).

#### Question 4

- (a) The first part of this section of the question required a calculation for the revenue for the year. As the cost of sales (\$350 000) and the gross margin (30%) were given, the cost of sales represented 70% of the total sales revenue. Sales revenue therefore was \$500 000.

The last three ratios, rate of inventory turnover, current and quick ratios had all the information supplied and answers could be obtained by applying the standard formulae.

Not many candidates answered this part well and areas for improvement are being able to use mark-up and margin information effectively and the importance of using average inventory when calculating the inventory turnover ratio.

- (b) Candidates were required to make comments on the changes in the ratios they had calculated in part (a). The general comments were that this business was 'overheating' with an increase in sales revenue and inventory turnover leading to reduced current and quick ratios.

Own figure marks were awarded and average marks were between 3 and 4. Answers that required development points were those that just referred to the ratios calculated and given. Good candidates developed this information and were able to infer possible reasons for the change in ratios over the two years.

- (c) In this part the candidates were required to use either control accounts or logic calculations to determine receipts from trade receivables and payments to trade payables. The purpose behind this calculation was to determine the impact that a reduced 'mark-up' on goods sold would have upon the bank overdraft.

This question was not answered well due to candidates not being able to use logic correctly and also due to the omission of expenses paid when arriving at a closing bank balance.

**Question 5**

- (a) Many candidates answered this question well. Some candidates used abbreviations (see general comments) and this is to be discouraged. Adjustments to the expenses were generally dealt with well perhaps with the exception of bank interest. The 4% loan had only been taken out for 8 months and interest required adjusting accordingly.
- (b) The statement of financial position was very well answered. 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.

One mark was often missed due to the addition of new computer equipment (\$54 000) and only the 4% bank loan was required to be shown in the non-current liabilities section of the statement. The 5% loan is shown under current liabilities as it is repayable in June 2019 the next accounting year.

# PRINCIPLES OF ACCOUNTS

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Paper 7110/22  
Paper 22

## Key messages

The paper required a sound knowledge of the techniques necessary to ensure that data is recorded accurately into an accounting system. Candidates need to be able to calculate percentages when checking and entering discounts allowed and received for example in assessment objective (AO1). Logic calculations and financial ratios are also used regularly as higher level skills (AO2) and (AO3) to explain and develop interpretative comments based on financial information and statements.

Candidates performing well had excellent book keeping skills and a clear understanding of the links to business documentation and regular checking methods used such as producing the trial balance and relevant control accounts.

These techniques form a sound basis for producing the formal accounting statements such as manufacturing and partnership accounts and this further helps to develop understanding when explaining the impact upon business resources following a change in any business policy.

## General comments

Candidates were able to complete ledger accounts although often narratives and dates were not accurate. Moreover, abbreviations such as 'gp' and 'cogs' are meaningless to anyone reading the accounts.

Candidates prepared formal accounting statements well. However, candidates seem to confuse direct and indirect costs or attempt to deduct them from a revenue figure in manufacturing accounts.

## Comments on specific questions

### Question 1

- (a) The question required the entries to be recorded in a purchases ledger account with a correct date, narrative and the amount of the invoice, credit note, refund and cheque received from the creditor (Mikaela). The refund was often recorded incorrectly as a 'refund' instead of bank, and likewise the 'credit note' instead of purchase returns. Dates were regularly omitted and the opening balance brought down on 1 April was not calculated or shown correctly. This type of question requires the candidate to identify a sale or purchase ledger account correctly.
- (b) This part of the question established a link between the source documents and the initial recording in the appropriate book of prime entry. The cash book was correctly identified readily for two marks and the purchases and purchases returns journals were easy marks if the link with the purchases ledger was made from part (a).
- (c) The question followed the flow of accounting information from initial document, entered into the book of prime entry and posted into the account of Mikaela in the purchases/trade payables ledger.

- (d) The construction of the trial balance is an exercise in identifying assets and liabilities and expenses and revenues and allocating to the correct debit or credit side of the statement. It represented easy marks for most candidates who had practised this checking technique following the recording of double entry transactions into the books of account.

Weaker candidates posted sales returns to the credit side and often finished the trial balance after general expenses and were not aware that the columns should be totalled. Any discrepancy would lead to the entering of a suspense account balance. Any difference (suspense account balance) would then need to be resolved in practice.

- (e) & (f) Proved to be challenging as part (e) required 'why' some errors 'will' or 'will not' affect the balancing of the trial balance. Reasons were often confused or regularly names such as errors of omission or of principle were given which were examples of the answers required to part (f). Simple statements such as debit and credit entries of equal value do not affect the trial balance, entries of different debit and credit values or single entries only will show a difference.

### Question 2

- (a) The question required the identification of the accounting entries following the notification of a credit customer who has ceased trading following part payment of an outstanding balance. This was generally well answered with the cheque debited to the bank and credited to the customer account. The balance outstanding is then written-off, debited to irrecoverable (bad debts) and the customer account credited with this amount and balanced off.
- (b) Control accounts are used to locate errors, provide proof of arithmetical accuracy of the ledgers and provide total figures for trade receivables and payables. Many candidates could give one or two reasons. Weaker responses often just gave names such as 'errors of omission'.
- Many answers stated that errors and fraud would be prevented. This is incorrect, control accounts are designed to reduce the possibility of both but they are not fool-proof against either occurring.
- (c) A contra entry in a control account is used when businesses are customers and suppliers to one another. Balances are 'set-off' against one another and the remaining amount is settled accordingly. This process requires coordination between businesses but the aim is to reduce unnecessary administration costs.
- (d) The question required the construction of a sales ledger control account. Candidates who were well prepared in double entry techniques applied the same approach and scored high marks. Some weaker responses did not aggregate the opening balances. Some others used narratives such as refund and dishonoured cheque which are not recognised as appropriate account references. It should also be emphasised that cash sales are not recorded in the control account as they do not relate to credit customers.
- (e) The final part of this question required the calculation of an amount (5%) for the provision for doubtful debts and to record the transactions into the ledger account. The balances at 1 May 2019 totalled \$3240 and therefore 5% of this figure generated a closing balance of \$162. Any movement in the bad debt provision is transferred to the income statement. The balance brought down on the account was marked on an 'own figure' basis. Even so this part of the question was poorly answered.

### Question 3

- (a) The calculations of key financial ratios form the basis for assessing solvency and profitability over accounting periods. The rate of inventory turnover, working capital ratio and the quick (acid test) ratio are standard ratios and strong candidates gained the maximum six marks. Some weaker responses did not calculate an average inventory or did not show answers in the appropriate ratio. This should be apparent as the previous months ratios were given for comparison purposes for part (b).

- (b) Comments required references to the ability of Jayden to pay the trade payables. All the indicators pointed towards problems with meeting trade payables. Strong answers referred to 'benchmark' ratios and were able to indicate a range in their answers in addition to highlighting qualitative movements such as improving or deteriorating ratios when compared to the February figures.
- (c) Many candidates found this part of the question challenging. The calculation of closing inventory uses the relationship between the mark-up to cost of sales and the sales margin, sometimes referred to as the accountant's ratios. A 50% mark-up generates a margin of 1/3 on sales (\$60 000) and this allows the reconstruction of the trading account and the deduction of the missing figure of closing inventory. This is a standard budgeting technique and has many applications for other areas of the syllabus such as incomplete records.

The remaining calculations for trade receivables and payables and the bank balance could be arrived at by applying control account techniques or by the use of logic calculations.

- (d) The question required comments on the success of a change in the marketing policy involving a reduction in the mark-up on cost of sales.

The general indications were a reduction in overdraft, a reduction in the level of trade payables and receivables and overall a beneficial outcome was achieved. Conclusions could be drawn using their own figures and marks gained accordingly. However this question was generally not well answered and there was a high level of 'no responses'.

#### Question 4

- (a) The source documents related to payroll accounting are clock cards/time sheets and wages/payroll sheet. This is basic textbook knowledge that many candidates were unable to answer.
- (b) The two elements in this section of the question required the calculation of the total labour cost and total net pay. Gross pay was easily calculated and bonus added. Confusion regarding statutory and voluntary deductions was evident and employer's national insurance contribution of \$1800 regularly included into the net pay calculation incorrectly.
- (c) The manufacturing account was generally well answered. Common errors were to include a revenue figure and then to treat the information as a trading account and followed this with the deduction of expenses.

The manufacturing account establishes prime cost, all the direct costs involved in the manufacturing process and then this is followed by the addition of overheads or indirect costs. Candidates must be able to make the distinction between the two types of costs and are also expected to identify general administration (office) costs and exclude them as they will be charged to the income statement.

Examples of abbreviations such as 'Cost of RM' should not be used and as mentioned in the general comments they are meaningless and do not clearly inform the readers of the different expenses incurred in manufacturing the product.

Strong candidates produced accurate and well-presented statements.

### Question 5

- (a) The income statement and appropriation account were well produced, (but note the general comments regarding the use of abbreviations), and expenses were adjusted accurately for accruals and prepayments. The main exception being insurance, with \$4600 being deducted as a prepayment. Only \$2300 should have been treated this way as the other half related to the next accounting period.

The appropriation account was also well produced with the occasional instance of interest upon drawings and capital being deducted instead of being added and vice-versa.

- (b) The partners current accounts represent a rich area for gaining five to six marks for many candidates.

The wages and salaries figure of \$8000 was shown correctly on the credit side of the account but the corresponding debit for the same amount was often missed.

- (c) The statement of financial position was very well answered. 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.

The capital section should clearly indicate the capital contributed by each partner and the current accounts likewise. The current accounts should record only the balances brought forward from the answers to part (b). Many instances were seen where interest on drawings and capital were re-entered here and this disturbed the closing balances.

Good candidates recognised that the cheque payment of \$1500 that had not been recorded in the books had to be reflected in the trade payables and bank overdraft balances in order to maintain duality.