

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

## Key messages

Candidates are required to have knowledge and understating of all the topics on the syllabus.

It is important to read each item very carefully before selecting an option.

## General comments

Candidates found one item significantly challenging. Those candidates who had 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 5

This should have been a straight-forward item and it was anticipated that the majority of candidates would know that the accounts of credit suppliers are maintained in the purchases ledger. The purchases journal does not contain any ledger accounts.

**Item 6**

The vast majority of candidates understood that discount given to a customer for prompt payment would be recorded in the discount allowed account and the account of the customer, Malik. Those candidates with a thorough understanding of double entry appreciated that the discount allowed account would be debited and Malik's account would be credited.

**Item 7**

This proved to be challenging for most candidates. A bank reconciliation statement is prepared by the trader to explain any differences between the cash book and the bank statement and is not part of the double entry book-keeping.

**Item 11**

The expense for the year, which was \$12 000, should be transferred to the income statement. This involves crediting the rent account and debiting the income statement (option **B**).

**Item 12**

The majority of candidates correctly calculated that there would be a balance on the rates account of \$500. This represented an amount prepaid which would be credited to the rates account on 31 August and bought down as a debit balance on 1 September. The key was **D**.

**Item 15**

Crediting sales returns to the purchases returns account results in the net sales being overstated and the net purchases being understated in the income statement. The gross profit would, therefore, be overstated by \$200 (option **B**).

**Item 16**

Those candidates with a thorough knowledge of double entry were able to select the correct answer. Interest charged by a supplier will be credited to the purchases ledger control account as it increases the amount owing. A contra entry to the sales ledger control account will be debited to the purchases ledger control account as it reduces the amount owing.

**Item 18**

An insurance premium of \$1800 was paid for twelve months from 1 December 2016 meant that on 30 September 2017 there was a prepayment of \$300, which would be included in the other receivables in the statement of financial position. Advertising costs, \$2400, covering the period 1 July to 31 December 2017, were paid in December 2017. This meant that there was \$1200 accrued at the end of the financial year on 30 September 2017. This would appear under other payables in the statement of financial position.

**Item 22**

Those candidates who had a good understanding of double entry could have reconstructed a subscriptions account to calculate the missing figure. Alternatively, an arithmetic calculation would have arrived at the same answer. The subscriptions for the year were \$23 000, but of this \$1500 had not been received from members and \$1000 had been prepaid by members in the previous financial year. The amount actually received was \$20500.

**Item 27**

This item required candidates to appreciate that debentures are long-term loans. Interest on those loans is an expense in the income statement of a limited company and any accrued interest is included in the current liabilities in the statement of financial position. The key was **A**.

**Item 28**

This proved to be a very challenging to candidates. In year 2 the revenue, the gross profit and the cost of sales were the same as they were in year 1. The closing inventory in year 1 was the opening inventory in year 2 and the purchases were \$124 000. As the cost of sales was \$120 000, the closing inventory must have been \$8000. The rate of turnover was calculated by dividing the cost of sales of \$120 000 by the average inventory of \$6000 ( $\$4000 + \$8000 \div 2$ ).

**Item 29**

This was an application of the money measurement principle. Stephan could not record the effect of a competitor making goods more cheaply as he could not quantify the effect in terms of money.



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

## Key messages

Candidates are required to have knowledge and understating of all the topics on the syllabus.

It is important to read each item very carefully before selecting an option.

## General comments

A few items proved slightly challenging to candidates. Those candidates who had 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 2

The key was **D**. A significant number of candidates incorrectly selected option A. A bank loan does not affect the owner's capital.

### Item 3

The majority of candidates understood that \$80 would be entered in the account of the customer, but of these approximately half incorrectly selected option A as the key. When goods are sold on credit the account of the customer is debited with the net cost of those goods.

### Item 4

This proved to be very problematic for most candidates. A bank reconciliation statement is prepared by the trader to explain any differences between the cash book and the bank statement. It is not part of the double entry book-keeping.

### Item 5

One of the uses of the general journal is to record transactions which are not entered in one of the other books of prime (original) entry. Option B was the key as this was the only transaction which would not be recorded in another book of prime (original) entry.

### Item 9

The expense for the year, which was \$12000, should be transferred to the income statement. This involves crediting the rent account and debiting the income statement (option B).

### Item 10

This required candidates to know the double entry to write off a bad debt. Over half the candidates understood that the transaction affected the accounts of Jane and bad debts. Those candidates with a good understanding of double entry correctly selected option A as the key.

### Item 12

It was expected that candidates would understand the meaning of capital receipts and be able to select the relevant items. Option A was the key. The receipt of a bank loan and cash from sale of a non-current asset are both capital receipts.

### Item 13

The inclusion of the purchase of a motor vehicle in the expenses means that both the profit for the year and the non-current assets will be understated.

### Item 15

The depreciation on the machine sold should have been calculated at \$12500 which represented 30 months' depreciation. This meant that the book value was \$7500 and the profit on disposal was \$1000. A substantial number of candidates appear to have included depreciation for only 24 months in the calculation.

### Item 16

Those candidates with a thorough knowledge of double entry were able to select the correct answer. Interest charged by a supplier will be credited to the purchases ledger control account as it increases the amount owing. A contra entry to the sales ledger control account will be debited to the purchases ledger control account as it reduces the amount owing.

### Item 22

Candidates found this item challenging. The key was A. The difference between the opening and closing accumulated fund indicated that the club had made a deficit for the year of \$1800. The running costs were \$9550, which meant that the total income from subscriptions must equal \$7750. The purchase of new equipment did not affect the income and expenditure account.

**Item 24**

Candidates had to select an item which would affect the calculation of trade payables when proper accounting records had not been maintained. Bad debts, discount allowed and returns inwards affect the sales not the purchases. The key was option **D** (returns outwards).

**Item 25**

This item required candidates to appreciate that debentures are long-term loans. Interest on those loans is an expense in the income statement of a limited company and any accrued interest is included in the current liabilities in the statement of financial position. The key was **A**.

**Item 26**

Candidates found this item challenging. CD Limited had opening retained earnings of \$86 000 and the profit for the year was \$26 000. These totalled \$112 000, of which \$5 000 was transferred to general reserve and \$88 500 was retained. This meant that the ordinary share dividend was \$18 500.

# PRINCIPLES OF ACCOUNTS

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Paper 7110/21  
Paper 2

## Key messages

Candidates who have a balanced range of book-keeping skills linked with the ability to demonstrate an understanding of how information is used throughout accounting systems performed well.

## General comments

Candidates should be prepared to produce standard ledger accounts and recognise accounting statements in addition to providing information in a range of tabular formats. Practice in this style of presentation is a key development area for both centres and candidates.

## Comments on specific questions

### Question 1

- (a) (i) Required the application of the accounting equation (assets – liabilities = capital) and arriving at capital by difference.
- (ii) This was an extension of part (a) and asked for the calculation of capital employed. There were many incorrect answers. The importance of being able to use capital employed is essential when calculating key performance ratios, a topic regularly examined (see **Question 4**) at all levels of accounting exam papers.
- (b) Candidates were expected to produce two ledger accounts demonstrating correct narratives and posting amounts after calculating discounts received and then paying a water utility bill.
- There was a general lack of recognition that the two accounts were linked. The transfer of the charge from the expense account to the income statement was often omitted and the outstanding amount of \$340 ignored.
- (c) An understanding of accruals is crucial to producing accounting statements. Generally candidates can apply this concept numerically. This part of the question required an explanation and the second mark relating to other accounting periods was often missed.
- (d) Accounting documentation needs to link to the relevant book of prime entry in the accounting system. Activities that require posting from source documentation to the book of prime entry and then onward to the ledger accounts are essential when answering this style of question. More importantly it gives the candidate an understanding of the flow of accounting information. Source documents were well answered but connections to the books of prime entry were often not made.

### Question 2

- (a) 'Easy to calculate' and 'shows the same charge each year'. This was a nice introduction to the topic of depreciation and was well answered.
- (b) This exercise in calculating annual depreciation for two machines with one being disposed of in 2017 proved challenging for many candidates. Acquisition and disposals of non-current assets are regular events in business. These calculations need regular practice and further consolidation with posting to the relevant ledger accounts.

- (c),(d) Own figures marks were awarded in the mark scheme. However the ability to post from the provision for depreciation to the disposal account and the subsequent transfer to the income statement proved a challenging step for many candidates and highlighted the need to integrate the activities for learning purposes.
- (e),(f) Capital and revenue expenditure were easily identified. Capital and revenue receipts were not as obvious and need to be explained as they do not occur perhaps as readily in normal trading circumstances.

It is important to emphasise that candidates must show ticks in one box only, unless instructed to do otherwise.

### Question 3

- (a) Candidates did reasonably well on this question. The statement should clearly identify the elements of the cost of raw materials consumed with appropriate narratives.
- Common mistakes involved the inclusion of office and administration costs and depreciation of office fixtures and fittings and the subtraction of factory overheads from prime costs.
- (b) There were some interesting and varied answers to voluntary deductions, with allowances being made for schemes such as health, death, insurance and childcare schemes for example.
- (c) Basic net pay calculations after calculating gross pay and deducting income tax and voluntary deductions were well attempted.
- (d) The question required the calculation of pay using piecework rates incorporating reject rates. This was attempted reasonably well.
- (e) This question required an appreciation of the weaknesses of piecework payment schemes. Quality issues were a common answer but a second point was not always forthcoming.

### Question 4

- (a) The initial step to answering this question was to determine the revenue by applying a mark-up of 20% to the gross profit figure of \$60 000. This will generate a cost of sales of \$300 000 leading to the initial sales revenue of \$360 000. This technique is used for budgeting purposes and should be practised regularly.
- The profit could be calculated by constructing a simple income statement and working capital could be calculated from data supplied in the question.
- (b) The profit margin, working capital ratio (current ratio) and quick ratio (acid test ratio) required candidates to apply standard formulas to the data supplied and were generally well answered. Own figures were applied where revenue had been incorrectly calculated in part (a).
- (c) Candidates were required to explain the difference between the current ratio and quick ratio (acid test ratio). They are both key solvency ratios and most answers mentioned the removal of inventory for the quick ratio (acid test ratio) and recognised that it could not be readily realised from a cash flow perspective.
- (d) The standard answer to this scenario was a solvency ratio of 0.26:1 that clearly indicated severe problems and technical insolvency for Juan. A development mark was available for candidates who indicated a benchmark ratio and own figures were allowed from part (b).
- (e) There are standard ways of improving a bank balance as clearly indicated in the mark scheme. Weaker responses would often say 'increase sales or cash' but would not support it with a viable strategy.



**Question 5 (40 marks)**

- (a) This was the most popular question.

Standard adjustments were made accurately although rent receivable and rent payable were often interchanged.

Bad debts and the increase in the provision for doubtful debts were regularly treated correctly.

- (b) The statement of financial position provided an opportunity to gain high marks, and the main error was omitting to reduce the balance at bank by \$7500 for goods purchased but not recorded in the books on the 30 April 2017.

# PRINCIPLES OF ACCOUNTS

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Paper 7110/22  
Paper 2

## Key messages

Many candidates demonstrated strong accounting skills that ranged from book-keeping to the production of accounting statements and an ability to explain the principles that underpin accounting systems.

## General comments

Candidates need to be able to present their answers in tabular layouts provided in addition to standard accounting formats. Question 1(d) provided three pieces of information which was regularly entered into the boxes almost at random. Careful consideration needs to be applied to all parts of a question.

Candidates should always check their calculations.

## Comments on specific questions

### Question 1

- (a) The question required candidates to calculate discounts allowed and received with entries into a cash book. Many candidates answered this question well. Common errors were posting \$810 for Cello instead of \$830, incorrect narratives such as dishonoured cheque, instead of Alice. Many balanced off the discounts column and did not understand that they represented different totals that would be posted to the respective revenue and expense account to complete the double entry from the cash book.
- (b) The discount received account total from the cash book of \$70 needed to be transferred to this account. This routine was not familiar and often the account balance was carried down instead of being transferred to the income statement.
- (c) Many candidates answered this question well.
- (d) This question was poorly answered. Figures needed to be adjusted in accordance with the information requested in the table. An incorrect common approach used by many candidates was to place the data in any order.
- (e) This required the identification of standard accounting documentation. Not many candidates answered this question well.
- (f) This part was answered reasonably well.

## Question 2

- (a) The entering up of the journal with correct narratives and amounts is essential and is used regularly to correct errors and eliminate suspense account balances. Two debit entries of \$4900 were required to correct the rents receivable and payable error and this was missed regularly. A useful exercise is to total the journal entries as a simple arithmetic check and would highlight some errors at this stage.
- (b) The suspense account required the posting of the entries from the journal in **2(a)**. The purpose of the journal entries was to eliminate errors and any balance on the suspense account. After posting to this account the remaining balance represented the original difference from the trial balance. Many candidates did not really seem to understand the purpose of this account.
- (c) This style of presentation required numerical movements of profits to be entered into an increase or decrease column. The common errors here were entering ticks in place of amounts or to enter figures in brackets into the increase column.
- (d) Generally well answered but candidates often became confused when asked to explain the difference between errors of commission and principle.

## Question 3

- (a) The subscription account is a major revenue account for most social and sporting clubs. This involved simple book-keeping entries for the bank, bad debt and the transfer to the income and expenditure account and for bringing down the closing balances correctly. Often entries were omitted or reversed.
- (b) There are a range of subtle differences between a receipts and payments account and an income and expenditure account. There were very few fully correct answers to this question. This style of question 'identifying differences between' acts as an important link between different types of organisations and helps to develop a deeper understanding of organisational accounting requirements.
- (c) The requirement to produce a statement of financial position was a straight forward listing of assets and liabilities. A complication was that no closing figure for the accumulated fund was made available. This figure could be arrived at by using the accounting equation and then deducing the missing figure for the opening accumulated fund.
- (d) This question was not well answered with only few candidates appreciating that the revaluation method of depreciation gave a realistic market value for non-current assets.

## Question 4

- (a) Many candidates found the calculation of a revenue figure difficult when provided with the cost of sales and a gross profit margin of 25%. Many incorrect answers arrived at sales of \$300 000 and this led to incorrect profit being calculated.
- (b) Many candidates answered this question reasonably well.
- (c) Generally well answered, candidates provided the correct identification of the direction of movement for the profit margin and return on capital employed and a valid reason that would lead to the improvement or deterioration.
- (d) Candidates answered this part reasonably well.
- (e) There are well established methods of improving working capital ratios. Many candidates simply said 'increase current assets' or 'reduce current liabilities' with no methodology of how this would happen. Some candidates could not appreciate that an increase in inventory by supplier credit for example would not create the desired outcome.

**Question 5**

- (a)** Income statement and appropriation account was well presented by many candidates. However, there were a few weak responses.

Weaker candidates could arrive at a profit for the year but became uncertain with the appropriation account and often subtracted interest on drawings and added interest on capital and salary.

- (b)** Most candidates answered this question well. The salary of \$5000 was often left out of the current account.

- (c)** As for part **(a)** and **(b)** above this was well answered with candidates being well prepared and producing statements to a very high standard. Some candidates did not adjust the office fixtures to \$16 000 after the disposal or recognised that the bank balance was an overdraft that required reduction following the receipt of a cheque for \$500 that had not been recorded in the books.

