PRINCIPLES OF ACCOUNTS

Paper 7110/11
Paper 11

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

Key messages

This paper requires candidates to have an understanding of all the topics on the syllabus.

Candidates are reminded of the importance of reading each item very carefully before selecting an option.

General comments

A few items proved to be slightly more difficult than envisaged. Those candidates that had a thorough understanding of the double entry system of book-keeping were able to select the correct option on items involving ledger entries.

Comments on specific questions

Item 5

Only credit purchases are recorded in the purchases journal. Cash purchases are recorded in the cash book and purchases returns are recorded in the purchases returns journal. The key was **B.**

Item 7

The account of Sukesh in Jack's books was provided. The entry on 8 May showed a credit to Sukesh's account indicating that money had come from Sukesh into Jack's bank. Sukesh received a cash discount from Jack for prompt payment.

Item 9

Liam had paid rent in advance to Gavin. In Liam's books this is an asset (a prepayment) so will be brought down as a debit balance in his rent payable account. From Gavin's point of view this is rent receivable paid in advance (a liability) so will be brought down as a credit balance in his rent receivable account.

Item 10

The majority of candidates understood the accounts in which entries were required to write off a bad debt and to make a year-end transfer, but some of these candidates did not understand which sides of those accounts the entries would be made. To write off a bad debt it is necessary to credit the customer and debit bad debts. To make a year-end transfer it is necessary to debit income statement and credit bad debts.

Item 12

The vast majority of candidates realised that the accounts involved were disposal and provision for depreciation. Only those candidates with a thorough knowledge of double entry were able to select **D** as the key.

Item 13

Candidates were asked what the balance on a provision for depreciation account represented. The balance on this type of account represents the total depreciation to date. As the transfer to income statement was a lower figure in the second year then the diminishing (reducing) balance method must have been applied. The key was **A**.

Item 14

The statistics indicate that a substantial amount of guesswork took place. The word "not" was emboldened to draw attention to the fact that the question related to items which would not be included in a sales ledger control account. The key was **C**.

Item 17

The key was **B**. The working capital would decrease by $50 when the credit customers paid $1150 in settlement of a debt of $1200 as the trade receivables would decrease by $1200 but the bank would only increase by $1150. Writing off inventory would cause the value of the inventory to decree by $200 and the working capital decrease by the same amount. After recording these items the working capital would be $5750.

Item 18

It was expected that this would be a reasonably straightforward item, but candidates found this question difficult. Some candidates incorrectly included the cost of computer equipment (which was a non-current asset). A significant number also included the fees owed by clients. In this question the fees did not require adjustment for the accrual as the first item on the list was described as 'fees earned' which represented the fees actually earned whether received or otherwise.

Item 19

Most candidates selected options **B** and **C** (C was the key). At the end of his financial year Carl's tenant owed $40 rent. Making adjustments for this would increase the profit for the year and also increase the current assets. The candidates selecting option **B** appear to be regarding the rent as rent payable rather than rent receivable.

Item 22

Candidates struggled with this question. If an interest-free loan is received by a club this will be debited in the receipts and payments account and will be included in the non-current liabilities in the statement of financial position.

Item 23

It was expected that the majority of candidates would select the key, **A**. The subscriptions relating to the current financial year were $3500 which represented the amount received during the year less the amount which related to the following year and plus the amount paid last year for the current year.

Item 24

The vast majority of candidates calculated that Nula had made a profit, but a significant number treated the drawings incorrectly which resulted in an incorrect profit figure. Drafting out a 'T' account would have assisted candidates to calculate the correct profit for the year.

Item 27

Candidates clearly misunderstand what represents a statutory deduction and what represents a voluntary deduction from an employee's wages. Statutory deductions are those deductions required by the Government such as income tax. Voluntary deductions are those deductions which the employee chooses to have deducted.

Item 28

The profit for the year as a percentage of opening capital employed was 11.11 per cent. This was arrived at by calculating the profit of $6000 as a percentage of the opening capital employed of $54 000 ($42 000 plus $12 000). A number of candidates did not include the loan and some used the closing capital.

Item 29

The key was **B**. The accounting year principle requires that businesses prepare financial statements at regular intervals.

Item 30

Many candidates found this difficult. If it was decided to write off only office equipment under $100 than the equipment purchased on 1 January for $120 would be regarded as a non-current asset. The deprecation for one year would be $40, so the net book value of this equipment at the end of the year would be $80. The total book value of the non-current assets would, therefore, increase by $80.

PRINCIPLES OF ACCOUNTS

Paper 7110/12
Paper 12

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

Key messages

This paper requires candidates to have an understanding of all the topics on the syllabus.

Candidates are reminded of the importance of reading each item very carefully before selecting an option.

General comments

A few items proved to be slightly more difficult than envisaged. Those candidates that had a thorough understanding of the double entry system of book-keeping were able to select the correct option on items involving ledger entries.

Comments on specific questions

Item 2

A credit entry in a capital account indicates an increase in the capital. In this case the corresponding debit was in the income statement. This means that an item has been transferred to the capital account from the income statement, so this must represent the profit for the year.

Item 6

The bank balance in the cash book of a business is included in the statement of financial position. The bank statement balance does not appear in the accounting records of the business. The cash book of the business showed a balance at bank of $312, but this had to be reduced by the bank charges so the balance to appear in the statement of financial position was $265.

Item 10

The majority of candidates understood that the year-end transfer of rates to the income statement involved debiting the income statement and crediting the rates account. However, some candidates did not appreciate that the rates transferred to the income statement should equal the rates relating only to that financial year.

Item 13

The word 'not' was emboldened to draw attention to the fact that the item related to costs which would not be depreciated. This item required an understanding of capital and revenue expenditure. Capital expenditure includes the acquisition and improvement of non-current assets together with any costs of purchase and installation. Such items would be debited in the asset account and so included in the amount on which depreciation is calculated. The key was **D** as repairs are revenue expenditure.

Item 16

Candidates struggled with this question. If a prepayment of rent payable is understated then the expenses are overstated so the profit is understated. If the closing inventory is understated then the cost of sales is overstated so the profit is understated. The correct profit for the year was $30 900.

Item 18

Inventory is valued at the lower of cost and net realisable value. The goods cost $1000 and it is estimated that they could now be sold for $600. They should be recorded in the financial statements at $600.

Item 19

The key was **B**, but an almost equal number of candidates selected option **C**. The working capital would decrease by $50 when the credit customers paid $1150 in settlement of a debt of $1200 as the trade receivables would decrease by $1200 but the bank would only increase by $1150. Writing off inventory would cause the value of the inventory to decrease by $200 and the working capital to decrease by the same amount. After recording these items the working capital would be $5750.

Item 20

The income statement was charged with the rent of the whole building so the expenses were overstated and the profit understated. This error would not, however, affect the capital as the profit was understated but the drawings were also understated by the amount of the rent relating to the owner's flat.

Item 22

It was expected that the majority of candidates would correctly identify **C** as the key. There were no opening balances on the subscriptions account as this was the first year of the club's existence. The subscriptions relating to the year were the amount received minus subscriptions prepaid and plus subscriptions owing. Drafting out a 'T' account would have assisted candidates to understand the relationship between the items.

Item 23

Candidates found this question difficult. If an interest-free loan is received by a club this will be debited in the receipts and payments account and will be included in the non-current liabilities in the statement of financial position.

Item 28

Candidates seemed unsure of the document used in the calculation of gross pay. A payslip is given to the employee showing the gross pay, deductions and net pay. A payroll register or wages sheet is a list showing the total gross pay, deductions and net pay for each employee. A time sheet is completed by an employee to record the hours worked each day. This is used by the employer to calculate the gross pay of that employee.

PRINCIPLES OF ACCOUNTS

Paper 7110/21
Paper 21

Key messages

Candidates who performed well in this paper had a broad knowledge of accounting procedures. This was supported by a sound foundation of book-keeping principles. There is strong emphasis on providing candidates with an understanding of accounting procedures carried out in practice such as bank reconciliation statements, preparing journal entries and constructing financial statements for sole traders and these were generally well answered.

Topic answers that could be improved upon are logic exercises in determining the impact upon profits (**2(b)**), 'statements of changes in equity' (**3(a)**) and the calculation of key ratios (**4(a)** and **(b)**).

General comments

Candidates are expected to identify the relevant transactions related to the sales and purchases ledger. Some candidates were unable to identify the correct ledger in **Question 1** and this indicates a need for regular practice of this fundamental type of exercise.

The updating of the cash book (**1(d)**) and the bank reconciliation linked to it (**1(e)**) were relatively easy but there were only few correct answers. This is a routine procedure for manual and computerised systems and this highlighted a lack of understanding of its importance in any accounting system.

Comments on the interpretation of key ratios (**4(a)–(c)**) were generally well answered and this is very encouraging as it demonstrates the relevance of producing and using accounting statements to candidates.

Sole traders accounting statements (**5(a)** and **(b)** worth 40 marks) were popular topics. A candidate's ability to produce professional statements that incorporate complex adjustments provides a sound platform for progression to higher levels of accounting qualifications.

Comments on specific questions

Question 1

(a) The question required a purchase ledger account to be updated with standard detail such as date, narrative and the amount of the transaction. Relevant adjustments had to be made for trade discount and cash discount accordingly. Weaker candidates clearly did not understand which discount was included in the accounts.

(b) The book of prime entry 'purchase journal' and its correct indication hinged upon the correct identification of the purchase ledger in **part (a)**.

Once the purchase ledger had been identified, answers to **parts (ii)** credit note, and **(iii)** purchases, indicated the candidates overall understanding of the book-keeping system and relevant documentation.

(c) The question required the candidate to demonstrate the reason why a trader would offer trade and cash discounts. It is important to understand that trade discount encourages bulk buying and is removed from the list price of the goods and does not enter the books of account.

Cash discount encourages payment within the specified period of credit and is entered within the books of account.

(d) The need to identify items on the bank statement that have not yet entered the accounting system is crucial for accuracy and the ability to monitor cash resources for all businesses. Items such as commission and dividends were often entered wrongly as credits in the cash book.

(e) The ability to link the updated cash book to the bank statement balance was regularly missed. In many cases a closing balance of 540 was arrived at, but candidates did not appreciate it was a credit balance.

(f) DD represented a direct debit payment upon the bank account.

Question 2

(a) Many candidates could answer the first two errors of omission and transposition. Item 3 caused problems and required the entry of 300 to the suspense account due to the incorrect entry to the discount allowed account.

Item 5 represented the disposal of fixtures and fittings of $800 wrongly posted to the sales account. A common error was to post a credit to a fixtures account and many were unaware of the use or existence of a disposals account for this type of transaction.

(b) This part of the question required the candidates to extend the logic beyond the required book-keeping in **part (a)** and to indicate he numerical impact upon profit for each of the transactions corrected by the journal. The average candidate would score between two or three marks.

Only the better candidates would score highly on this question and it is a style of question that requires practice and helps to extend the understanding of the outcome upon profit of accounting errors.

(c) Compensating errors and error of principles presented problems from a detailed explanation aspect. The mark scheme identifies two elements for each error in order to gain the full marks.

Question 3

(a) The table charts the movements of equity between share capital, general reserve and retained profits. Many candidates were unaware of this standard layout and how the movements should ‘cross-cast’ across the table.

(b) This part proved challenging for candidates. The extract required the balances from the statement of earnings to be taken into the statement of financial position. Own figure marks were awarded here, but few candidates were able to produce a required layout that calculated an amount for total equity. A common error was to include debentures within the equity section of the statement.

(c) The differences between ordinary and preference share capital was generally well answered.

(d) The purpose of transferring profits to the general reserve again was well answered, with many candidates aware of needs for businesses to reinvest in non-current assets, to pay future dividends when profits were low, or for unforeseen contingencies.

Question 4

(a) The initial step to answering this question was to determine the cost of sales by applying a mark-up of 25%. This would have automatically generated a gross profit margin of 20%. This relationship is often referred as one of the accountant's ratio and is commonly used for budgeting purposes. This information allowed the profit and rate of inventory to be determined.

(b) The last two ratios, working capital and quick ratio only required candidates to apply standard formulas to the data supplied and were generally well answered.

(c) The interpretation of the ratios calculated were particularly well answered indicating a strong understanding of the drivers that influence changes in key ratios, in this case over two accounting periods. Some weaker candidates would make comments such as 'gross profit margin has changed due to a change in sales'. This type of answer lacked substance and marks were awarded for common business strategies such as 'increasing selling prices' or 'reducing the cost of goods sold or produced'.

(d) Three proposals were offered (increase capital, change the depreciation rate and take out a 6% bank loan). The answer required a 'tick-box' exercise indicating the impact upon profits and working capital.

This style of question acts as a good discriminator. The more able candidates score highly on both aspects whilst weaker candidates can generally only identify the impact on profits correctly. This style of question requires practice but again helps to develop a deeper understanding of the overall impact proposed actions may have upon resources of a business.

Question 5

(a) This was a popular question and candidates scored high marks demonstrating considerable practice and skill when producing final statements for all types of business organisations.

Standard adjustments were made accurately.

(b) The statement of financial position again illustrated the benefit of solid practice by candidates. If errors did occur it was usually down to not adjusting the bank figure by $8000 to reflect the purchase of new shop fixtures. This was usually accompanied by not adjusting the increased cost by the same amount in the non-current assets section of the statement.

Finally, even candidates who scored highly would show the 8% bank loan as a long-term liability. The loan is repayable on 31 December 2017 and therefore falls in the current liability category. The ability to determine whether a loan is long term or short term is frequently asked in this type of question and candidates should aim to disclose the liability correctly.

PRINCIPLES OF ACCOUNTS

Paper 7110/22
Paper 22

Key Messages

Candidates who perform well demonstrate a sound knowledge and understanding of basic book-keeping and recording of accounting information techniques. This foundation of accounting principles then lays a firm basis upon which to develop the AO2 (analysis) and AO3 (evaluation) skills necessary for the preparation of financial statements and their interpretation.

Weaker candidates need to give more emphasis to books of prime entry, journal entries and ledger information as they remain essential to entering financial data into manual and computerised accounting systems.

General Comments

Three main areas to focus upon that will enable candidates to develop and improve further are:

1. Develop accuracy in the reading of and calculation from base figures. Simple calculations of 50% of rent of $24 000 resulted in mistakes with answers such as $1200 and $120 000 being seen regularly in **Question 5**.

2. Review answers to ensure these are reasonable. Gross profit was regularly calculated as higher than the sales revenue figure in **Question 4**. This type of error can be detected by a candidate who has a clear understanding of how a trading account is constructed and how to derive a gross profit margin from it.

3. Apply correct terminology such as account names, dates and amounts. Incorrect narratives were frequently used such as ‘cheques from customers’ and ‘paid’ in place of ‘bank’ in a control account.

Comments on Specific Questions

Question 1

(a) Good responses identified this was a trade payable account and produced the ledger account correctly with dates, suitable narratives and amounts. Trade discounts had to be removed from the list price and not entered into the books of account, a common error from weaker candidates.

(b),(c),(d) Required the identification of specific accounting terminology and documents. Sales invoices and credit notes are source documents and strong candidates have a clear overview of how the information flows through the books of prime entry and into the appropriate ledger accounts.

(e) The task required a mapping of the numerical transactions in the question into a table showing the effect upon assets, liabilities and capital. Candidates with knowledge of control accounts did well with this style of question. Common errors were not to indicate 'plus or minus' or 'no effect' with the numerical answer which was a specific instruction in the question.

(f) The task asked for two reasons why book-keeping records are maintained. A common weakness was to give reasons for maintaining the control accounts instead.

Question 2

(a) The reasons behind producing control accounts can be difficult to grasp at this level but generally this question was answered well. Standard answers such as 'assisting the location of errors, providing the totals of trade receivables and trade payables and as a deterrent against fraud' were seen regularly.

Some candidates were of the opinion that they stopped all errors and prevented fraud. This is not the case.

(b) Candidates performed well on this task. The opening balance of 36 000 was brought down correctly as a debit and transactions recorded accurately with date, account detail and amount.

Some candidates used incorrect narratives for cheques received, credit notes and dishonoured cheque being netted off against the total bank received figure of $53 800.

(c) The provision for doubtful debts ledger account is an extension exercise related to the sales ledger and required the calculation of a closing provision of 5% of the closing balance on the sales ledger control account in **part (b)**. Marks were awarded here for own figure calculations but a common weakness was the inability to identify and post this closing balance on the debit side of the provision account at the 31 March 2017.

(d) The identification of prudence or accruals / matching as an appropriate concept was answered well.

(e) This question identified an important knowledge gap of how to apply writing-off bad debt entries through the general journal. The most common omission was not to credit the debtor account (or sales ledger control account) of Horner with the full amount of $1250. Few candidates were able to complete the journal entries with a concise narrative that included the name of the debtor, the amounts received and written-off, and the reason for the entry, being a 'bad-debt written-off'.

Question 3

(a) This should be the simple application of the accounting equation that leads to the deduction of opening capital. Many candidates however deducted the goodwill at this point arriving at an incorrect capital figure of $26 800. This was then carried through into the statement of financial position.

(b) Most candidates scored three marks by the aggregation of non-current assets, current assets and current liabilities. Only better candidates showed a net figure of $3350 for the bank and even a smaller number were able to eliminate goodwill correctly.

(c) Candidates found it difficult to define goodwill. Many answers just stated 'intangible asset' or 'reputation of the business' as the answer to part **c(i)** and this in essence was the answer to **part (c)ii**.

(d) The appropriation account was well answered. If a common error was made it was down to including the salary of $12 000 in the interest on drawings for Bolin arriving at $900.

(e) Many candidates answered correctly with 'disputes and the problems of decision making'. A common answer was just to say 'unlimited liability' or to discuss the inequality of the profit sharing ratio which was specifically excluded in the question.

Question 4

(a) The question required candidates to calculate common ratios when applying interpretive techniques to accounting information. Generally the question was well answered; weaker candidates omitted the bank loan from the return on capital employed. It is important that candidates should ensure that answers are reasonable (gross profit should not be larger than sales).

(b) Many candidates performed well on this question. Weaker responses were able to gain usually one mark from each comment and the impact of the reduction in the loan for the change in return on capital employed (ROCE) was regularly identified.

(c) This question acted as a good discriminator. The average candidate could generally determine the impact upon profit for the three proposals under consideration. However the ability to demonstrate a deeper understanding of the impact upon ROCE was more demanding for candidates.

(d) Concepts were generally well answered.

Question 5

(a) The question overall was particularly well done with a number of candidates giving totally correct answers. Candidates could clearly define the component sections of the accounting statement accompanied by accurate narratives and calculations. There is still a need to reinforce that this account does not commence with sales revenue, and manufacturing wages are direct costs and do not appear in the factory overheads section.

(b) Again this section was generally well completed. Adjustments were correctly identified and net figures brought into the account accurately. An exception to note was that quite often rent receivable was not added to gross profit but treated incorrectly as a current asset.

(c) The statement of financial position can be described as substantially correct. Occasional candidates did not detail the entire inventory and a bank figure of $9700 that should have been adjusted down to $4700 to take account of the cheque issued but not entered to date.