

# PRINCIPLES OF ACCOUNTS

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**Paper 7110/01**  
**Multiple Choice**

## **General comments**

The results reveal that a number of candidates do not understand the basic principles of accounting such as double entry and journals. Year-end adjustments such as prepayments and accruals, provision for doubtful debts and depreciation also proved to be a problem area for many candidates.

The mean mark was 13.31 and the standard deviation was 5.66.

When compared to the target accessibility of 25-80%, two items proved to be slightly more difficult than was anticipated.

All the items were within the scope of the syllabus.

## **Comments on specific items**

### **Item 1**

The key, D, was selected by 55% but it was disappointing to find that 29% believed that final accounts are prepared to check the bank statement balance.

### **Items 3, 4, 6, 8, 11 and 12**

These items involved basic double entry and understanding ledger accounts. The statistics indicate a surprising degree of guesswork on what should have been relatively straightforward items.

### **Item 5**

Only 37% correctly selected the key, B. 40% selected option A, the credit note. When goods are returned the purchaser sends the seller a debit note: the seller issues a credit note to the purchaser.

### **Item 9**

This proved to be slightly more difficult than anticipated. 53% did calculate the correct figure of \$2003, but only 26% correctly indicated that this would be a credit balance.

### **Item 13**

It was anticipated that this would be a relatively easy item for most candidates and it was extremely disappointing that only 47% correctly identified the error as being an error of commission.

### **Items 14, 15, 18, 19 and 25**

These items involved year-end adjustments and proved difficult for many candidates.

### **Item 16**

The key, A, was selected by 54%, but it was somewhat disappointing that 33% believed that food and drinks purchased by a restaurant would be regarded as capital expenditure.



**Items 17 and 29**

These items involved the effect of errors on profit. It was anticipated that the majority of candidates would be able to correctly calculate the key in each case.

**Items 21 and 26**

These items were both on the topic of incomplete records. Once again, the statistics indicate that this is a topic which a number of candidates find difficult.

**Item 24**

It was expected that this item would be answered correctly by the majority of candidates. However, some candidates appear to be unfamiliar with the contents of a club's receipts and payments account.

**Item 27**

It was disappointing that only 29% were able to correctly calculate the retained profit (profit and loss account) from the list of figures provided. Drafting a balance sheet should have shown that the retained profit was \$15 000 (the difference between the fixed (non-current) assets plus the net current assets (working capital) and the ordinary share capital plus the debentures).

**Item 30**

It was anticipated that the majority of candidates would be familiar with the basic accounting principles and that they would be able to identify C as the key. It was extremely disappointing that only 26% correctly identified the situation described as being an application of the historical cost principle.

# PRINCIPLES OF ACCOUNTS

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Paper 7110/02

Paper 2

## General comments

Although there were many very good answers, it appeared that some candidates found the question paper challenging. Overall, there was a considerable range of responses, with the more able candidates giving good answers and finding some higher level parts of the questions to demonstrate their abilities whilst less well prepared candidates were still able to find some accessible marks from the question paper.

To improve the potential for success centres should ensure that all the topics on the syllabus are given a thorough coverage and adequate practice is undertaken. Additionally it should be pointed out to candidates that they cannot rely on the final accounts question to ensure success. There was some evidence of candidates rushing the first four questions in order to give more time to question five. Candidates should be encouraged to employ a time management approach when answering questions and to attempt all the questions on the paper.

The following comments should be read in conjunction with the question paper and the published mark scheme.

## QUESTION 1

- (a) The majority of candidates were able to demonstrate their knowledge of the running balance format and the fact that the balance of the account was always available.
- (b) Candidates were asked to prepare two ledger accounts. The marks were awarded for the narrative and the figure. Some candidates used inappropriate narratives and consequently marks were lost. Also debit and credit entries were recorded incorrectly. Centres are recommended to ensure that candidates are given sufficient practice in the preparation of ledger accounts in order to respond appropriately to questions in the future.
- (c) Candidates were required to identify the correct ledger for two given accounts. This was well received with many correct answers but weaker candidates lost marks by indicating the journal although the word ledger was given on the examination paper.
- (d) Candidates experienced few difficulties with identifying that the correct document was an invoice and the sales book was the correct book of original entry.
- (e) The requirement here was to explain why all the insurance paid had not been included in the income statement. The majority of candidates appreciated that a prepayment was involved but did not explain sufficiently why this was the case, i.e. expenditure is matched with income for the accounting year. The \$330 was prepaid for the next accounting year to 31 August 2011.

## QUESTION 2

- (a) This question required the preparation of journal entries to correct given errors. This was generally well answered, with item 2, i.e. the purchase of goods \$650 from Alana, causing the most problems. The requirement to double the figure to \$1,300 to reverse the error was not recognised. Again as with the ledger accounts centres are advised to ensure that candidates are given sufficient practice in the preparation of journal entries.
- (b) The majority of candidates were able to correctly identify the types of errors given.
- (c) This question required the candidates to revise the profits for the year in the light of the changes to the previous question. This fact appeared to have been missed by many candidates.
- (d) Candidates were able to provide some very good benefits of the introduction of ICT in book-keeping.

## QUESTION 3

- (a) This question was based on the accounts of limited companies and required the preparation of an appropriation account. Most candidates were able to score highly in this question but there were many who were unable to include appropriate labels or used abbreviation which is not acceptable in examinations at this level.
- (b) This section of the question clearly stated that an extract from the balance sheet was required to show shareholders funds. Many candidates cost themselves time by endeavouring to prepare the balance sheet in full. Candidates should be advised to take a little more time in reading and relating to the requirement of the question.
- (c) The term capital employed with regard to limited company was not well recognised, i.e. shareholder's funds plus debentures.
- (d) The distinction between preference shares and cumulative preference shares requires to be given more emphasis. Although the nature of a fixed dividend for both shares was indicated by many candidates, only a few candidates identified that cumulative implies, if a dividend is not paid in a given year it will be paid at a future date when profit is available for the purpose.
- (e) This section produced reasonable answers, e.g. the distinction of dividends paid to shareholders and interest paid to debentures was often seen. Other distinctions were also provided.
- (f) Although the advantages of international standards, e.g. comparability and the narrowing of variations, were often given by candidates, the core advantage of world wide recognition with regard to, e.g. international stock exchanges and multinational companies was rarely indicated.
- (g) Candidates were able to provide a correct definition of capital expenditure as required.
- (h) Again good answers, full marks being achieved by the majority of candidates. Several candidates dealt incorrectly with item three, the purchase of computer CDs: i.e. whilst they maybe used over several accounting periods maintenance and renewal as well as updating is more often required and thus revenue expenditure is the more applicable definition.

#### QUESTION 4

Candidates were firstly required to calculate the current ratio and the acid test ratio for two years.

They were then required to suggest one reason for the change in liquidity between the two years. And suggest ways in which the business may improve its bank balance

- (a) Although many correct answers were seen some candidates confused the calculation of the quick ratio with the current ratio or failed to express the result correctly, i.e. stating it to be “times” or a “percentage” and not as x:1 as required.
- (b) Whilst the majority of answers stated that an increase in stocks, debtors or fixed assets had caused the liquidity problem, others indicated the increase in creditors, bank overdraft or loan as the cause. This stated the effect rather than the cause of the problem.
- (c) Overall reasonably well answered, many candidates provided appropriate suggestions for improving the bank balance. Point (b) above also applies to some answers seen, reducing the creditors or repaying the loan is not a means of increasing the bank balance.

#### QUESTION 5

This question was concerned with the production of a set of financial statements for a sole trader and in the main was well done by the majority of candidates

(a) The majority of answers were well presented and showed that the topic had been given a thorough coverage. The main errors in the trading section were:

- The incorrect treatment of the decrease in the provision for doubtful debts, i.e. shown as an expense and not as an income item.
- The inclusion of a full years loan interest payment and not for six months, i.e. \$250 not \$500.
- Omitting the bad debt of \$4,250.
- Incorrect calculation of the depreciation of motor vehicles.

The main errors in the profit and loss section were:

- Mixing up the value of the opening inventory with the closing value of the inventory, i.e. reversing the treatment of the figures.
- Deducting carriage inwards, \$3,000.
- Adding the goods taken for own use, \$1,250.

(b) Again well presented. The main errors in the balance sheet were:

- Incorrectly calculating depreciation to date, i.e. vehicles \$16,500 and office equipment \$6,600.
- Incorrect figure for the doubtful debts provision, i.e. \$750.
- The short term loan being treated as a long term liability when it is clearly a current liability.