

# PRINCIPLES OF ACCOUNTS

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<p><b>Paper 7110/01</b> <b>Multiple Choice</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	21	<b>A</b>
2	<b>A</b>	22	<b>B</b>
3	<b>C</b>	23	<b>B</b>
4	<b>D</b>	24	<b>C</b>
5	<b>D</b>	25	<b>D</b>
6	<b>C</b>	26	<b>D</b>
7	<b>A</b>	27	<b>C</b>
8	<b>A</b>	28	<b>A</b>
9	<b>B</b>	29	<b>C</b>
10	<b>C</b>	30	<b>C</b>
11	<b>C</b>	31	<b>A</b>
12	<b>D</b>	32	<b>B</b>
13	<b>A</b>	33	<b>A</b>
14	<b>C</b>	34	<b>A</b>
15	<b>C</b>	35	<b>B</b>
16	<b>C</b>	36	<b>B</b>
17	<b>B</b>	37	<b>A</b>
18	<b>C</b>	38	<b>A</b>
19	<b>D</b>	39	<b>C</b>
20	<b>B</b>	40	<b>C</b>

## General Comments

There were 19895 candidates (compared to 19049 in November 2006). The mean mark was 19.2 (which was the same as that in November 2006) and the standard deviation was 7.4 (compared to 7.5 in November 2006).

Judged against accessibility of 25–80%, no items were regarded as too easy; one item was regarded as too difficult and one item was regarded as slightly too difficult.

All the items were within the scope of the syllabus.

### **Comments on Specific Items**

#### **Items 1, 5, 7, 12, 20, 22, 24, 29, 30, 37, 39 and 40**

The statistics indicate a substantial degree of guesswork in respect of all these items. The responses also indicate that some candidates are not reading the items carefully, resulting in incorrect responses. It is important that candidates familiarise themselves with multiple choice items before attempting the examination.

Only 39% selected the key in **Item 1**. 37% mistakenly believed that cash purchases would be recorded in the purchases ledger.

The key was selected by only 30% in **Item 5**. A dishonoured cheque is credited to the bank account and debited in the debtor's account; it is not regarded as a bad debt.

It was disappointing that only 31% correctly selected the key in **Item 7**. Cash sales and equipment purchases by cheque are entered in the cash book and purchases returns are entered in the purchases returns journal.

**Item 12** was expected to be a straightforward item and it was disappointing that only 44% were able to classify rent received by a trader as revenue income.

The statistics for **Item 20** indicate a high level of misunderstanding in connection with control accounts. Candidates should appreciate that the information for the preparation of control accounts is obtained from books of prime entry.

**Item 22** should have involved a relatively easy calculation. 47% successfully selected the key. The selection of the other options indicates a lack of understanding of how goodwill is calculated.

Another relatively easy calculation was involved in **Item 24**. 53% successfully selected the key. 33% selected the gross profit figure rather than the cost of sales figure – possibly as a result of not reading the item carefully.

In **Item 29** it was disappointing that 22% thought that depreciation decreased the expenses. Once again, this may be the result of not reading the item carefully; the heading of the table did refer to the expenses not the profit.

The stem of **Item 30** stated that “a trader is owed commission”, but the majority of candidates appeared to interpret this as being commission *owed by* a trader.

**Item 37** revealed that a large number of candidates did not understand the principle of issued share capital. The statistics indicate a high degree of guesswork.

It was expected that the majority of candidates would select the key to **Item 39**. Once again, a degree of guesswork was evident.

**Item 40** should have been a straightforward item. The selection of the options indicates that many candidates were not familiar with this basic accounting principle.

#### **Item 4**

Surprisingly, this item proved to be slightly too difficult. It was expected that candidates would realise that the discount was discount received, and would, therefore, select the key, D.

#### **Item 6**

Only 31% selected the key. 48% treated the bank overdraft as a positive balance and arrived at \$1560 as the cash book balance.

#### **Items 10, 11, 13, 18 and 19**

These items all involved errors in the accounting records. This is obviously a topic which many candidates find difficult and there was evidence of guesswork.

**Item 10** was intended to be a straightforward item and it was disappointing that only 50% of candidates selected the key.

Only 40% correctly selected the key in **Item 11**. The first two options would not affect the balancing of a trial balance and option D would result in the credit side being larger than the debit side.

46% correctly selected the key in **Item 13**, but it was disappointing to find 29% selecting option C, believing that omitting an expense caused the net profit to be understated.

In **Item 18** 90% of candidates realised that the accounts involved were suspense and sales, but only 50% knew that the suspense account would be credited and the sales account debited.

**Item 19** proved to be much too difficult for the vast majority of candidates. They failed to appreciate that correcting an error of sales, \$60, being recorded as a selling expense would cause the net profit to increase by \$120.

### **Items 28, 32 and 33**

These items were all on the topic of partnership accounts.

It was expected that the majority of candidates would select the key, A, in **Item 28**. In the situation described the partner would wish to include interest on capital in the partnership agreement.

The statistics indicate a substantial degree of guesswork in **Item 32**. Candidates should be aware that interest on capital would be credited to a partner's current account.

The responses to **Item 33** were disappointing. It should have been a straightforward item. Only 36% correctly added the interest on drawings to the net profit, deducted the interest on capital and divided the resulting figure by two.

### **Items 34 and 35**

These items were on the topic of clubs and societies.

It was anticipated that the majority of candidates would select the key in **Item 34** and the statistics were very disappointing.

Only 37% selected the key in **Item 35**. 46% added the opening debit balance on the subscriptions account to the amount received in the year; this amount should have been deducted.

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<p><b>Paper 7110/02</b></p>
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<p><b>Paper 2</b></p>
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## General comments

Overall candidates provided a good response to **Questions 4 and 6**. As in previous years, there was a reliance on the numeric questions, particularly the final accounts, for candidate marks. The more conceptual questions, requiring the skills of analysis and evaluation were often not well done, although some Centres have now begun to help their candidates to appreciate this aspect of the syllabus. Candidates should be encouraged to respond to these types of questions. The examination tests their understanding of accounting and not their level of English. It should be stressed that responses which contain the correct application of the key concepts or words will be awarded marks even if the grammar or spelling is weak. However, the writing should be clear and neat. It is important that the Examiner is able read what the candidate is trying to say.

It was evident that many candidates had not read the questions with sufficient care, as some answers did not relate to the business situation given in the questions, e.g. **Question 2**. Centres should encourage candidates to identify the key word or phrases in each requirement, by underlining these words, so that the candidate is very clear about the question and can then provide an appropriate answer.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) Many candidates consolidated the two discounts, i.e. added 25% and 10% together and calculated  $35\% \times \$1,200$ , rather than adopting a tiered approach to the calculation. Other common errors included:
- Correctly calculating one or two of the discounts, but failing to deduct them from the sales figure.
  - Calculating the cash discount at 10% of the original sales and then deducting 25% of the net value. This should have been a straightforward calculation for the majority of candidates.
- (b)(i) Many candidates answered from the viewpoint of the errors having been corrected rather than their initial impact.
- (ii) Many candidates failed to commence with the profit figure of \$14,200. Other errors included:
- Commencing with bank balance of \$14,200.
  - Introducing non-relevant figures, e.g. drawings.
  - Adjusting profit by the cash sales figure rather than the discount value.
- (c)(i) A common error was to assume the bank balance would decrease, based on an assumption that this was entered "incorrectly". A payment is a payment regardless of mistreatment at a later point!
- (ii) Many candidates failed to identify the effect of mistreatment i.e. the item being included in fixed assets would lead to fixed assets being overstated. A common response was to repeat the question and state that, "Depreciation had not been charged".

### Question 2

- (a)(i) The concepts of capital and capital employed were not well understood. Candidates who were able to provide a simple phrase or to demonstrate that they were aware of the difference between capital and capital employed by the use of key words were awarded the marks. Only three figures in the question required to be analysed in order to determine the numerical answer to each definition.
- (ii) A failure to read the question carefully was evident. The organisation in the question was a limited company and not a sole trader. Candidates negated their answers by referring to the “owner” or the “businessman”, i.e. writing about a single owner rather than a plural situation where shareholders are involved. The inclusion of “drawings” was also, therefore, not appropriate to the situation.
- (b) Most candidates correctly calculated that net assets had decreased. Few candidates identified the possible reasons, e.g. lower profits/loss incurred, or higher dividend distribution.
- (c) Again, a failure to recognise that a limited company was involved led to imprecise answers. Common errors:
- The response “to increase capital” was not sufficiently specific. The use of words or phrases which mentioned the issue/sale of shares was more appropriate.
  - A common response “obtaining of a loan” needed more explanation. It was important to indicate that in the context of capital structure this would be of a long-term nature.
  - There was confusion between net assets and current assets. Suggestions that current assets should be increased and current liabilities should be decreased were not relevant to the situation given in the question.

### Question 3

- (a) Most candidates were able to give a reasonable definition of cost but few could define net realisable value. A common error was to assume that cost referred to the original value of fixed assets whilst NRV related to the depreciated value, i.e. confusing net realisable value with net book value.
- (b) There were a number of reasonable responses here, although some candidates did not appreciate that if gross profit decreases the net profit must also decrease.
- (c) Many candidates identified a drop in sales or an increase in stocks. A common error was to refer to valuations based on cost and NRV, thus essentially repeating point (a) above.
- (d) Better answers overall to this section.

### Question 4

Overall this topic was well understood and many candidates obtained a reasonable mark. Common errors included:

- A failure to recognise that the containers represented a direct cost and including them in the raw materials consumed figure.
- The deduction of factory overheads from the prime cost figure.
- A failure to add the direct cost figures to the cost of raw materials, or, add factory overheads to the prime cost figure.
- The introduction of the sales figure which negated marks from the point of its introduction.

### Question 5

- (a) and (b) Very poor answers. Responses indicated a lack of knowledge of how to prepare a debtors and creditors account, based on information given, to determine the missing sales and purchases figures. The understanding and application of double entry procedures is an essential aspect of the syllabus.

- (c)(i)** A very good response overall with the majority of candidates providing the correct answer.
- (ii)** The common failing here was a failure to recognise that the bank figure had changed to an overdraft.  
Common errors:
- The inclusion of the plant and machinery figure in the calculation of both **(i)** and **(ii)**.
  - The utilisation of the figures in the summarised cashbook given in the question.
- (d)** Most candidates identified an increase (or decrease based on **(c) (i)** and **(ii)**) Few commented on the overall liquidity position, i.e. the implications of the bank overdraft. Comment on stock, debtors and creditors figures increasing by 10% merely repeated the information in the question.

#### Question 6

- (a)** Overall the majority of candidates were well versed in the preparation of final accounts. However, it was evident that some Centres had not given sufficient coverage to the requirements of a partnership business as evidenced by a lack of knowledge with regard to the appropriation account and the current accounts of partners.  
Common errors were:
- Abbreviated account headings which lost candidates the presentation mark.
  - Deducting the unrecorded invoice value from purchases, or omitting it completely.
  - Adding the provision for doubtful debts provision to gross profit.
  - Treating the balances on the capital accounts as appropriations and introducing interest on capital as appropriation items where no such note to that effect was given in the question.
- (b)** Balance sheets were generally well prepared.  
Common errors were:
- Many candidates reversed depreciation and net book value, i.e. \$4,300 as the provision and \$17,200 as the NBV.
  - Treating the prepayment as a current liabilities and the accrual as a current asset.
  - Merging capital account figures with current account, or not attempting current accounts at all.
  - The addition of the outstanding invoice, \$1,620, to creditors was also often omitted.