

7110 GCE O LEVEL PRINCIPLES OF ACCOUNTS STANDARDS BOOKLET

INTRODUCTION

This booklet contains answers written by ordinary level candidates in the June 2008 Principles of Accounts examination. The answers have been selected to demonstrate both strengths and weaknesses in the candidates responses.

The examination question paper and the mark scheme used by the examiners are given as appendices, together with the Principal Examiner's report.

Each question will be analysed in detail explaining the responses required to each part, and these will be illustrated with the answers of two candidates. One example will be that of an A grade candidate and the other an example of a C grade candidate. Comments will be given on each response, to indicate where marks were awarded, why marks were lost, and how additional marks could have been obtained. Reference will also be made to the Principal Examiner's report and, where appropriate, teaching strategies will be suggested.

7110 PAPER 2

This is a structured written paper of two hours length, with five or six compulsory questions drawn from topics across the whole syllabus. The final question in the paper carries one third of the total marks, and consists of the preparation of a full final accounts, including either a manufacturing account or partnership accounts.

The three objectives assessed in the paper are:

- | | | |
|---|------------------------------|-------|
| A | Knowledge with understanding | (25%) |
| B | Analysis | (55%) |
| C | Evaluation | (20%) |

- A – Knowledge with understanding requires candidates to demonstrate by numeracy and literacy their knowledge of accounting terms and principles.
- B – Analysis requires candidates to select and order financial information in appropriate accounting format.
- C – Evaluation requires reasoned conclusions to be drawn from financial information.

STUDY SKILLS

Eighty per cent of the total marks are awarded for knowledge of accounting procedures and terminology and the ability to put accounting information into a prescribed format.

Candidates should have a copy of at least one recognised textbook for the specification. It is also recommended that they have a selection of recent past papers – four at minimum. As the subject is cumulative, candidates should be learning to answer parts of examination questions as soon as a topic is completed. This can be done early in the course with questions on day books (journals) and double entry. This ensures that candidates will be familiar with the examination paper and be practicing answering examination questions at the same time.

Twenty per cent of the total marks are awarded for evaluation, and it is this area which often proves to be the weakest in candidates' scripts. Usually this skill is assessed by ratio analysis and many candidates are unable to explain the causes or changes in the ratios or to make comparisons between calculated ratios. Also it is not unusual for the evaluation part of a question to be left unanswered. This may be because candidates have not been encouraged to learn the skill of evaluation, as tutors concentrate on the other skills in the paper. With this approach it is highly unlikely that candidates will gain higher grades.

TEACHING STRATEGIES

All the questions in the paper are compulsory, so it is essential that the whole syllabus is covered. Candidates must be prepared to answer a question on **any topic** on the syllabus.

The syllabus enumerates the main topic areas as:

1. Basic Principles
2. Accounting Procedures
3. Final Accounts
4. Preparation of Final Accounts
(sole trader, partnership, club and societies, incomplete records, limited liability companies, manufacturing accounts)
5. Payroll Accounting
6. Advanced Principles

Therefore it is logical (although not essential) to teach the topics in this order.

Fundamental to the whole syllabus is:

- an understanding of the principles of double entry
- the ability to prepare final accounts in correct format
- knowledge of the terminology used in accounting, and the ability to explain accounting terms.

These skills should be practiced regularly throughout the course if the candidate is to gain a high grade in the examination. Teachers should provide candidates with samples of questions from past papers so that they are familiar with the style of questions and ensure that they will be well prepared to answer any type of question set.

The most difficult assessment area in the examination for candidates is the evaluation requiring reasoned conclusions to be drawn from financial information. In an O level examination paper this is examined by candidates calculating accounting ratios and then having to comment on their results – either by comparing two different firms or two different years for the same firm. This accounts for 20% of the total marks.

Generally the calculation of the ratios is well done. However, the analysis of the results often indicates ‘rote’ learning of answers, without being relevant to the figures used in the questions or the results calculated. A considerable number of candidates simply do not attempt the analysis.

Teachers should use past questions, in conjunction with mark schemes and the Principal Examiner’s report, to develop a series of sample questions where the results will be different, i.e. profit will increase or decrease, or liquidity will improve or deteriorate. Candidates should then be encouraged to work out for themselves the reasons why the changes have taken place, **in relation to the two figures** used in the ratio. This can be done individually or in groups.

Accounting is the language of finance, so it is important to be precise when asked to explain the terminology. When answering prose questions many marks are lost because the responses are too vague. For example, when asked to illustrate the impact of a transaction in the final accounts, the candidate will use the word “affected” instead of indicating how the item will be affected, i.e. increased, decreased or no effect. When analysing ratios the movement must be indicated and quantified. When describing items in the balance sheet, the type of asset or liability must be given.

Double entry principles are fundamental to all accounting procedures. When a double entry is required, either as a ledger account or a journal entry, the correct narrative is **the other account** in the double entry. Many candidates use narratives such as – cheque, goods, debtor, asset – which is incorrect. The correct narratives would be: bank, sales, J Brown and machinery, which are the **names** of the ledger accounts in which the entries are made. When a question requires a ledger account to be prepared, the closing balance should always be carried down to the next period.

The Principal Examiner’s report is an essential tool in guiding and advising teachers on the weaknesses in candidates’ scripts. Pointers should be incorporated into schemes of work and candidates regularly reminded of them. This should result in better understanding and presentation of accounting procedures, and a high standard of examination technique – all of which will help to improve the grade of the candidate.

QUESTION 1

Part (a)

Complete a three column cash book.

This required knowledge of a day book and double entry. Entries had to be dated, with correct narratives, and the closing cash and bank balances calculated and carried down to the next week. The knowledge required was:

- the opening bank balance had to be calculated
- a contra entry made
- treatment of cash discount
- knowledge of the difference between a bank loan account and a bank deposit account

Principal Examiner's comment – Despite the cash book being an important day book, there was evidence of insufficient practice and preparation.

Candidate A

This was a very good answer, gaining 13 out of a total of 16 marks. The calculation of the opening balance was complicated. The \$860 taken as drawings represents half of the balance. This candidate has correctly doubled the amount to \$1720, but has not deducted the \$80 of cash transferred to the bank account as a contra entry. The correct bank balance was \$1640.

Many candidates incorrectly treated the opening of the bank deposit account as a contra entry. The correct entry was to credit the cash account with \$600. The double entry would be a debit of \$600 in a bank deposit account in the nominal ledger. Two marks were awarded for carrying down own figure cash and bank balances, but another mark was lost for not calculating the correct bank overdraft.

George Gale
Cash Book

Date	Details	Discount \$	Cash \$	Bank \$	Date	Details	Discount \$	Cash \$	Bank \$
2008	Bank			1720	2008	Bank		1720	1720
May 25	Balance b/d		80		May 25	Bank (contra)		60	
May 25	Cash (contra)			80	May 26	Drawings			860
May 27	Sales		1900		May 29	Fixtures & fittings			3500
May 27	Sally Jones	50 2		450	May 30	Bank (contra)		600	
May 28	Bank loan			2000	May 31	Wages		100	
May 30	Cash (contra)			600					
					2008	Balance c/d		200	490
		50	980	4850	31 May			980	4850
1 June	Balance b/d		200	490					

Candidate C

This answer was given 7 marks out of a total of 16. There was no attempt to calculate the opening balance. The opening of the bank deposit account was treated as a contra entry. Three marks were lost for insufficient narratives of the closing balances. The abbreviation of 'bal' is acceptable, but candidates should be taught to use the full narrative and not to use abbreviations, as this is not good practice. In this instance the abbreviation 'B' is unacceptable.

George Gale
Cash Book

Date	Details	Discount \$	Cash \$	Bank \$	Date	Details	Discount \$	Cash \$	Bank \$
2008					2008				
May 25	Balance b/d		80		May 26	drawings		1	560
May 27	Sales		900		May 27	drawings & drawings		1	3500
" "	Sally Jones	50	450	450	May 28	Bank (contra) A		600	
May 28	Bank loan		1	2000	May 31	drawings		100	
May 30	cash (contra)		8	200	May 31	B/d		190	
May 31	B/c/d		1310					800 100	4000
		50	890	4360				890	4360
June 1	B/d		190		June 1	B/d			1310

Part (b)

Distinguish between cash and trade discounts.

Principal Examiner's comment – A straightforward knowledge question which was well answered.

Candidate A

A clear distinction is made between the two discounts.

Trade discount are given in bulk buying!
Whereas cash discounts are given for prompt
payments and they are ^{also} recorded in cash book

Candidate C

The candidate knows the difference between the two discounts, but has transposed the answers, losing both marks.

cash discount is given to encourage customers buy
more goods while trade discount is given for
prompt payment

Part (c)

Identifying assets and liabilities.

Principal Examiner's comments – Well answered, except for bank.

The question specifically related to George Gale in part (a). Candidates assumed that bank was an asset without referring to (a) where the bank was an overdraft.

Candidate A

The candidate assumed that bank was an asset, without referring to George Gale's bank account in (a) where the bank was overdrawn.

	Asset	Liability
Fixtures and fittings	✓	
Bank	✓	
Cash	✓	
Bank deposit	✓	
Bank loan		✓

Candidate C

The bank has been classified as an asset without referring to part (a) where it was an overdraft. The candidate has put a tick in **both** the asset column and the liability column for the bank deposit, and so loses the mark.

	Asset	Liability
Fixtures and fittings	✓	
Bank	✓	✗
Cash	✓	
Bank deposit	✓	✓
Bank loan		✓

QUESTION 2

This question required an understanding of fixed assets, including:
distinguishing between revenue and capital expenditure
the calculation of depreciation
journal entries
a disposal account

In (a) it is essential to identify the assets as 'fixed'.

In (b) the example chosen should relate to Saira Mir's business.

In (c) the correct definition is 'cost less accumulated depreciation'. Many answers gave 'cost' only, but 'net book value' was acceptable. However, candidates confused net book value and net realisable value.

Candidate A

Part (a)

The definition of capital expenditure is detailed and more points have been made than the two points awarded. However, the candidate states that "it might be more than one year", which should be that it is expenditure which is spread over more than one accounting year. The first point relating to revenue expenditure is correct, but the benefits are consumed within one accounting year, not within one day.

Capital expenditure Capital expenditure is the money invested
in order to enjoy long term benefits! and its benefits
are enjoyed over a longer period of time, might be more than one year
eg buying of fixed assets, all the cost incurred to make that asset
make in utilising form

Revenue expenditure The money needed to run the business
on day to day running. The benefits are consumed
within a day [4]

Part (b)

The component parts are purchases, so are treated as revenue expenditure.

Capital expenditure Buying of component parts

Revenue expenditure Delivery in her motor vehicle

Part (c)

Excellent answer, including less accumulated depreciation and net book value.

They should be valued at net book value, i.e.
cost less accumulated depreciation!

Candidate C

Part (a)

The capital definition is correct, but examples did not gain any marks as examples are required in **(b)**. Revenue expenditure is correctly defined. A comment related to time would gain a second mark, i.e. that it is used up within one year.

Capital expenditure is when the business or owner spends money for buying fixed assets (for a long period of time) eg - buildings vehicles.

Revenue expenditure is when the business or owner spends money for the day-to-day activities of the business (eg - electricity) [4]

Part (b)

The components are purchases, so are classed as revenue expenditure.

Capital expenditure Motor vehicle buying of computer components

Revenue expenditure Motor vehicle running costs [2]

Part (c)

The candidate has answered the wrong question, giving a method of depreciation instead of the valuation of fixed assets.

Revaluation method

Part (d)

Principal Examiner's comment – Candidates calculated the depreciation for the year, but then confused that with the provision for depreciation when doing the journal entry. Narratives in the journal entry must indicate the two accounts involved in the transaction. These were often incorrect. This was also true of the disposal account, with narratives of 'cost' and 'fixed asset' and in many cases 'machinery' when the asset being disposed of was a motor vehicle.

Candidate A

- (i) This is a very good answer, but the mark is lost as the assets have not been identified as fixed.
- (ii) Correct calculation, with detailed working.
- (iii) Correct double entry, and narratives for the journal entry. An alternative narrative for profit and loss is depreciation.
- (iv) A completely correct disposal account. An alternative narrative for loss on disposal is profit and loss account.

- (i) Explain the term depreciation.

Depreciation is the amount which refers to the amount by which an asset's value decreases over a period of time. It is an expense for the business. [1]

- (ii) Calculate depreciation for the motor vehicle for the year ended 30 April 2008.

$8000 - 7000 = 1000$
 $50\% \text{ of } 1000 = \500
 Depreciation = \$500 [2]

- (iii) Show the journal entry for the provision for depreciation at 30 April 2008. A narrative is not required.

	Dr	Cr
	\$	\$
Profit & Loss	500	
Provision for depreciation		500

[2]

- (iv) Prepare the disposal account for the motor vehicle.

Motor Vehicle Disposal Account	
2008	2008
30 April, Motor vehicle 8000	30 April, cash 400
	30 April, Depreciation 7500
	30 April, Loss on disposal 400
<u>8000</u>	<u>8000</u>

[4]

Candidate C

- (i) Correct definition, as the loss in value of a fixed asset.
- (ii) Correct calculation, with detailed working.
- (iii) Despite correctly calculating the depreciation for the year in (ii), the candidate used the accumulated depreciation figure in the journal entry.
- (iv) The candidate knows how to draw up a disposal account, but lost 3 marks for incorrect narratives.

(d) (i) Explain the term depreciation.

depreciation is bringing down the value of a fixed asset to its (100) value after a number of years.

(ii) Calculate depreciation for the motor vehicle for the year ended 30 April 2008.

RBM - cost = 8000
 car 1st dep (-) 7000
 1000 x 50% = 500
 car 1st dep + 2nd dep 7000 + 500 = 7500
 [2]

(iii) Show the journal entry for the provision for depreciation at 30 April 2008. A narrative is not required.

	Dr	Cr
	\$	\$
Purchases	X 7500	
prov for dep	X	7500

[2]

(iv) Prepare the disposal account for the motor vehicle.

Dr	Cr
31-05-04 cash X	30-04-08
8000	sales X 900
	30-04-08
	prov for dep 7500
	30-04-08
	100
	B/bid X
8000	8000
31-05-08	
B/bid 100	

[4]

QUESTION 3

Profitability and liquidity ratios had to be calculated, an adjustment to the stock and a recalculation of the working capital and an explanation of why profitability and liquidity are important to a business.

Part (a)

This was very well answered.

Candidate A

Working is clear and easy to follow. The quick ratio should be expressed :1, i.e. 1.3:1, but 4:3 was acceptable. The question specifically asked for answers to one decimal place, so although the workings and answer for rate of stock turnover were correct, the mark was lost as the answer was given as a whole number

		Workings	Ratio
(i)	Gross profit/sales	$\frac{115000}{240,000} \times 100\%$	47.9 % 2
(ii)	Net profit/sales	$\frac{30,000}{240,000} \times 100\%$	12.5 % 2
(iii)	Net profit/capital at start of year	$\frac{30,000}{260,000} \times 100\%$	11.5 % 3

(iv)	Working capital ratio	$\frac{\text{Current Assets}}{\text{Current liabilities}} = \frac{60,000}{30,000}$	2 : 1 2
(v)	Quick ratio (acid test)	$\frac{\text{Current Assets} - \text{Stock}}{\text{Current liabilities}} = \frac{60,000 - 20,000}{30,000}$	4 : 3 2
(vi)	Rate of stock turnover	$\frac{\text{Cost of goods sold}}{\text{Average Stock}} = \frac{125000}{(10000 + 20000) \div 2} = 125000 / 15000$	8 times calc

Candidate C

The question specifically asked for answers to one decimal place, but marks were awarded where the answer was correct to two or more decimal places. Item (iv) required the working capital ratio, but the candidate has given the working capital figure. He has calculated the working capital ratio correctly, but unfortunately has given this as the answer to the quick ratio, failing to deduct the closing stock. The formula for the rate of stock turnover is completely wrong.

		Workings	Ratio
(i)	Gross profit/sales	$= \frac{115000}{240000} \times 100$ $= 47.916\%$	47.9 % 2
(ii)	Net profit/sales	$= \frac{30000}{240000} \times 100$ $= 12.5\%$	12.5 % 2
(iii)	Net profit/capital at start of year	$= \frac{30000}{260000} \times 100$ $= 11.538\%$	11.5 % 3
(iv)	Working capital ratio	$= \frac{CA - CL}{2}$ $= \frac{60000 - 30000}{2}$ $= 15000$	15000
(v)	Quick ratio (acid test)	$= \frac{CA - CL}{CL}$ $= \frac{60000 - 30000}{30000}$ $= 2\%$	2%
(vi)	Rate of stock turnover	$= \frac{\text{Sales}}{\text{working capital}}$ $= \frac{240000}{15000}$ $= 16 \text{ times}$	16 times 0

Part (b)

An understanding of the net realisable value of stock was required, the stock at end had to be adjusted and the revised working capital and rate of stock turnover calculated.

Candidate A

- (i) The rule of stock being valued at the lower of cost or net realisable value has to be applied. Cost was \$20,000 and net realisable value \$18,000, so the cost of goods sold is increased by \$2,000 to \$127,000. Although the candidate knew how to calculate the rate of stock turnover, he did not adjust the cost of goods sold, nor did he calculate the average stock $(18,000 + 10,000/2)$. He used the closing stock.
- (ii) Following on from (i), the current asset of stock should be reduced by \$2,000 to \$58,000, less the original current liabilities of \$30,000. The candidate deducted drawings of \$40,000, which had already been done.

		Workings	Ratio
(i)	Gross profit/sales	$\text{Sales} - \text{Cost of goods sold} = \text{Gross profit}$ $240000 - 125000 = 115000$ $\frac{GP}{\text{Sales}} \times 100$ $= \frac{115000}{240000} \times 100 = 47.916 = 47.9\%$	47.9 % 2
(ii)	Net profit/sales	$\text{Gross profit} - \text{Expenses} = \text{Net Profit}$ $115000 - 85000 = 30000$ $\frac{30,000}{240000} \times 100 = 12.5\%$	12.5 % 2
(iii)	Net profit/capital at start of year	$\frac{30,000}{260000} \times 100 = 11.538 = 11.5\%$	11.5 % 3

Candidate C

- (i) As the candidate did not know the formula for the rate of stock turnover, another two marks were lost here.
- (ii) The current assets have not been reduced by the reduction in the stock of \$2,000. The current liabilities are correct, as is the calculation of the working capital, so only one mark is lost.

- (i) Calculate the rate of stock turnover for the period from 1 June 2007 to 1 June 2008 using the net realisable value for stock valuation. (Answer to one decimal place.)

$$\text{Rate of stock turnover} = 16 \times 2$$

$$= 32 \text{ times}$$

[2]

- (ii) Calculate the working capital on 1 June 2008.

$$\text{working capital} = CA - CL$$

$$= 60000 - 30000$$

$$= \$30000$$

[3]

Part (c)

This proved to be a classic example of the candidates not reading the question carefully. An explanation of the importance of profitability and liquidity was asked for, but candidates answered the question as to why the profitability and liquidity **ratios** were important, or what they meant. In (ii) it was essential to relate the answer to Ahmed Abdulla's business.

Candidate A

- (i) An excellent answer, giving three reasons, together with examples.
- (ii) In point 2 a statement is made about selling more stock in 2008, but there are no figures given in the question to verify this. Point 3 is a repeat of the answer in point 1.

1 So that he could pay his day to day expenses regularly and should not delay essential expenses e.g. payment of wages
2 So that he could enjoy financial assistance from banks having a positive net cash flow!
3 So that he keeps his business's operations running and shall not lose any potential customers. [3]

- (ii) Give three comments on the financial success of Ahmed Abdulla's business.

1 Ahmed has withdrawn cash which means that the most liquid asset has decreased, reducing working capital!
2 His rate of stock turnover will prove successful if it's higher than the previous year. Managed to sell more stock in 2008
3 Quick ratio doesn't show a highly solvent position and he shouldn't have withdrawn \$40,000 cash. [3]

Candidate C

- (i) The first two reasons are valid, but the third point is a description of the working capital rather than a reason.
- (ii) The point made in point 1 is a repeat of the answer in (i). Point 2 should be in part (i) as it is a reason for profitability, not a comment on Ahmed's financial success.

1 so that he has enough retained profits for the future profits of the businesses. 1

2 so that the expenses (cash outflows) are less than the incomes (cash inflows). 1

3 so that his current assets that is stock, debtors, bank, cash are higher than current liabilities. [3]

(ii) Give three comments on the financial success of Ahmed Abdulla's business.

1 Ahmed will be able to have more profits and he can spend retained profits for further expansion. 1

2 He also can ~~pay~~ ^{also} ~~long~~ ^{spend} more on capital expenditure. 1

3 He ~~has~~ ^{is} ~~not~~ ^{is} likely to fail as cash or his incomes are higher than expenses. [3]

QUESTION 4

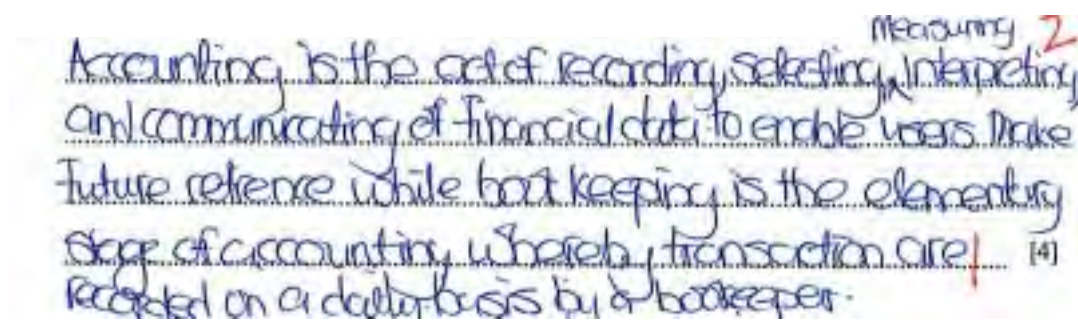
This question assessed knowledge of accounting terminology, and the quality of answers varied widely. Generally the benefits of ICT were well answered, but the candidates' understanding of the concept of ethics is very poor.

Part (a)

Explain the difference between book-keeping and accounting.

Candidate A

A textbook definition of accounting. The definition of book-keeping requires a comment relating to source documents, day books or double entry to gain the second mark.

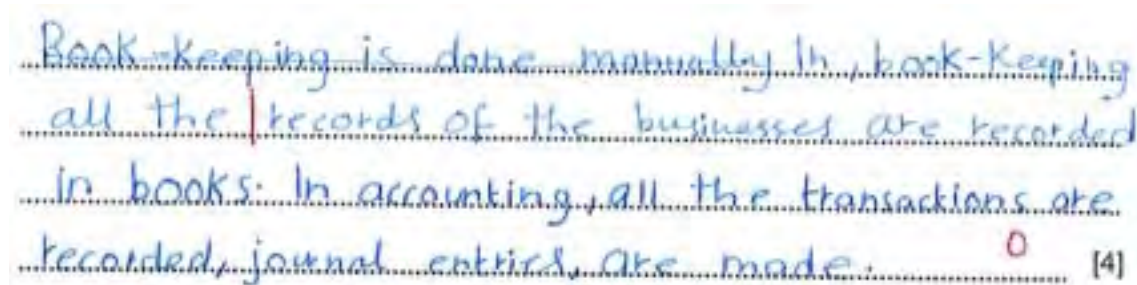


Accounting is the act of recording, selecting, interpreting, and communicating of financial data to enable users make future reference while book keeping is the elementary stage of accounting whereby transactions are recorded on a double basis by a bookkeeper. [4]

Measuring 2

Candidate C

The definition of book-keeping gained one mark. An additional mark was available for stating that these records are prepared from source documents or that the records are made in day books. A mark would also be given for mention of double entry.



Book-keeping is done manually in, book-keeping all the records of the businesses are recorded in books. In accounting, all the transactions are recorded, journal entries are made. [4]

0

Part (b)

Explain the difference between a trading business and a service business. Descriptions of a trading business were well answered – basically as one that trades in goods. However, many candidates described a service business as one that 'offered a service'. This was an inadequate answer on its own, but marks were awarded for giving a suitable example. Common errors were that a service business was a government organisation or a not-for-profit organisation.

Candidate A

The definition of a trading business is good. The definition of a service business is too vague, and it is incorrect to say that there are no sales or gross profit in a service business. However, two marks are given for the example of hotels and restaurants as this shows an understanding of types of service business.

In a Trading business, a business sells goods² that is sales and buys, goods that is purchases and it earns a Gross Profit. But in service business, it's just providing services, there are no sales and purchases hence no gross profits example Hotels² Restaurants. [4]

Candidate C

The definition of a trading business is too vague. To say that a service business offers services does not adequately define the term. If the candidate had given an appropriate example, then 2 marks would have been awarded.

Trading business is the business between consumer and supplier which have to meet each other.
Service business is the business that's give service to the consumer. [4]

Part (c)

Four benefits of using ICT in preparing accounts had to be given. Answers should have specifically related to accounting, but marks were awarded where an obvious benefit was identified.

Candidate A

An excellent answer, including appropriate examples.

- (i) Speed of computers is very fast. It gives data quickly and retrieves information.
- (ii) It can make calculations in few seconds. Very complicated calculations can be performed.
- (iii) It has a lot of storage capacity. large volume of data can be stored and we can even trace the data back.
- (iv) It gives very accurate results. It does not make mistakes which humans can. [4]

Candidate C

Answers are too brief to demonstrate understanding of the benefits.

- (i) more cheaper.
- (ii) Easy and quickly.
- (iii) more clearer.
- (iv) more understanding.

Part (d)

Give two reasons why professional ethics in accounting would be important for Julie Carter's clients. Ethical behaviour is about the difference between right and wrong, i.e. **behaviour which is honest, trustworthy, confidential and reliable towards the clients and the preparation of their accounts.** Candidates confused this with accounting standards and concepts. A recommendation would be to give candidates an example of each of the four elements above in relation to an accountant's behaviour.

Candidate A

Two simple, but perfect examples of ethics – full marks.

- (i) For integrity²: He could be honest and fair because he will be making up reliable financial statements.
- (ii) Confidentiality:- The business records should be kept confidential, not any other business should know. The business should be able to complete compete with other businesses. [4]
- [Total: 16]

Candidate C

Answers in (i) and (ii) are very vague. The first comment is not related to ethics, but the second comment of a "code that she is the only one to know" was awarded 2 marks as an indication of confidentiality. This is an example of giving the candidate 'benefit of the doubt'.

- (i) So that no one will open her account without his her permission. It is more safer.
- (ii) His Her money will be more safer with the code that that she is the only one to know. 2

QUESTION 5

This question carried one third of the total marks for the paper, and required the preparation of a trading, profit and loss and appropriation account, and balance sheet for a partnership. Generally, candidates were well prepared for this topic, and collected the majority of their marks from this one question.

Correct presentation is expected, together with appropriate and complete headings with dates, correct labels, correct narratives and sub-headings throughout the final accounts. Candidates should be taught not to use abbreviations, as this is not good practice.

Part (a)

The trading account was well answered. A common error in the profit and loss account is to include the provisions for depreciation. The appropriation account was well answered, although a common error was to include the drawings.

Current accounts which are prepared separately before the balance sheet, tend to be more accurate than those attempted in the balance sheet. The several additions and subtractions required lead to more errors being made, especially if the current account has an opening or closing debit balance. Current accounts can be prepared individually or in columnar format, although the columnar format is quicker.

Candidate A

A well-presented trading account, with correct headings and labels and no abbreviations. In the profit and loss account the accrual and prepayment are correct, with the adjustments shown in brackets. This is important as marks can be allocated to the original figure and the adjustment. If no working is shown, then all the marks will be lost.

The depreciation on motor vehicles is calculated using the reducing balance method, but the figure of \$10,500 is 50% of the cost.

The appropriation and current accounts gain full marks – although not the correct figures, the candidate is rewarded for following the correct method using his own figures.

(a)

East & West
Trading, Profit & Loss and Appropriation Account
For the year ended 31 May 2008

	£	£	£
Sales		411320	
less: Sales returns		(7340)	403980
Net sales			403980
less: cost of goods sold: -			
opening stock 1 June 2007	15200		
add: Purchases	207620		
add: carriage on purchases	2160		
	209780		
less: Purchases returns	(1470)	208310	
cost of goods available for sale		223510	
less: closing stock 31 May 2008		(16100)	(207410)
Gross Profit			196570
7			
less: Total operating expenses: -			
wages and salaries (93700 + 7835)	101535		2
motor expenses (14600 - 800)	13800		2

	\$	£	₹
general expenses		416.10	
repairs		2000	
provision for depreciation - fixtures & fittings	7000		
provision for depreciation - motor vehicles	10500		
provision for doubtful debts	770		
Total operating expenses		(17724.5)	
Net Profit		19325	

Item: Interest on capital :-

East (60,000 × 5%)	3000	
West (30,000 × 5%)	1500	(4500)
		14825

Item: Salary of West

		(3500)
		11325

Remaining profits shared :-

East (11325 × 2/3)	7550	
West (11325 × 1/3)	3775	11325

Candidate C

The heading mark is lost as the name of the business is omitted. There should be **no** abbreviations in the heading (or labels).

In the trading account the opening and closing stock has been transposed. The last item in the cost of sales calculation is always the closing stock. Any item included after stock will gain no marks. The returns inwards should be deducted from the sales.

In the profit and loss account, the accrual and prepayment are correct, with the adjustments shown in brackets. The depreciation for the fixtures and fittings is not the amount for the year, but the residual value.

Trading profit and loss a/c for the year ended 31 May 2008		
Sales		411320
Less cost of sales		
Add opening stock	(16100)	
purchases	207620	
Less closing stock	(15200)	
carriage inwards	(2160)	
return outwards	1430	207830
Gross profit		203490
Less expenses		1st
Accr Wages and salaries (93700 + 7835)	101535	7
Motor expenses (14600 - 800)	13800	2
Dep of fixtures and fittings	8000	
Dep of Motor vehicles	2675	1
Prov for doubtful debts	770	1
Return inwards	7340	
General expenses	41640	170710
Net profit		32780

Balance Sheet as at 31st May 2008

Non-current Fixed Assets	Cost	Acc Dep	NBV
land and building	72000	2000	70000
fixtures and fittings	15000 18000	17000	22000
Motor vehicles	21000	18375	2625
			93625
Current Assets			
Stock	16100		
Prepaid motor expenses	800	1	
Debtors (38500-770)	37730	1	
Bank	1420	56050	
G:			
Current liabilities			
Accrued wages and salaries	17835		
Creditors	19240	(27075)	28975
			122600
Financed by			
Capital	East	West	
Capital	60000	30000	
Less Drawings	19050	7050	
Salary		35000	
Interest on capital	30000	15000	
	72050	47050	114100
Net profit	72050	47050	114100
Net profit			32780

146880

Part (b)

In the balance sheet it is essential to:

- deduct the provision for depreciation to show the net book value
- add two or more fixed assets together
- deduct the provision for doubtful debts from debtors to show the net debtors
- to sub-total current assets and current liabilities

In a partnership final accounts, the closing balances on the current accounts are taken to the balance sheet and added to the capital account balances. It is a common error to do this, and then the net profit and drawings are added and deducted again. This is a duplication of the entries previously made in the current accounts, and corrupts the balances in the balance sheet.

Candidate A

The layout for the fixed assets is good, showing the net book value for each asset and a total for all the fixed assets. Presentation of fixed assets can be done vertically or horizontally, although the latter is the best practice.

As a result of an error in the calculation of the depreciation for the motor vehicles in (a), the provision is greater than the cost, resulting in a negative figure for the net book value. Usually the candidate is given reward for using his own figures from the profit and loss account, but it is impossible to have a negative net book value so the mark is lost.

The current assets are listed in the correct order and sub-totalled. The provision for doubtful debts has been deducted from debtors to show the net figure.

The capital section is correctly presented, and 2 marks awarded for the current account balances, which are the own figures from the current accounts.

(b)

Current account - East			
Debit		Debit	
Drawings	9050	Balance b/d	10,600
		Interest on capital	3000
		Profit	7550
2008 31 May Balance c/d	12100		
	21150		21150
		2009 1 June Balance b/d	12100

		Current account - West		
Date	Details	£	Details	£
	drawings	7050	1 June 2008 Balance b/d	6900
			Interest on capital	1500
			Salary	3500
			Profit	10375
2008 31 May	Balance c/d	8625		
		15675		15675

East and West

Balance sheet as at 31 May 2008

Fixed assets :-

	£	£	£
Land and buildings (12000 - 2000)	10,000		
Fixtures / fittings	3800		
less: provision for depreciation (14000 + 7000)	(21000)	17000	
motor vehicles	21000		
less: depreciation (15750 + 10250)	(26000)	(1250)	61750

Current assets :-

closing stock	16100		
debtors	38500		
less: provision for doubtful debts (770)	(770)	37730	
prepaid expenses motor expenses	800		
cash at bank	1420	56050	
Total assets		137800	

Liabilities :-

Creditors	19210		
accrued wages & expenses	7835		
repairs - accrued	2000		
	(not done on sheet)		

		\$	\$	\$
Q5	Financed by:-			
continued	Capital: East		60000	
	West		30000	90,000
	Current: East		12100	00
	West		8625	00 10725
	Total assets and liabilities			<u>129800</u>

Candidate C

The appropriation account is correct using the candidate's own profit figure. In the balance sheet the net book value of the motor vehicles is negative, because of a calculation error in (a). The land and buildings has not been reduced by the \$2,000 repairs. The current assets and current liabilities are correct, showing the working capital. Although there were no marks awarded for the working capital in this question, this is good practice.

The financed section is a perfect example of the confusion caused when the current accounts are done in the balance sheet. Marks have been awarded for the correct treatment of interest on capital and drawings. The final current account balance marks are lost as they have been corrupted by the capital balances.

	Net Profit		<u>21755</u>
Appropriation a/c for the year ended 31/05/2008			
	Net Profit		21755
Less: interest on capital East a/c			
	West		800 3000
			15000
Less: Partnership salaries West			
	profits		3500
			<u>13755</u>
Share of profits East			
	West		9170
			4585
			<u>13755</u>

East & West

Balance Sheet as at 31st May 2008

Fixed Assets	Cost	Accumulated Depreciation	NBV
Fixtures and fittings	38000	21000	17000
Motor Vehicles	21000	26250	(5250)
Land and buildings	72000	-	72000
	<u>131000</u>	<u>47250</u>	<u>83750</u>

Current Assets

Stock	61000	
Debtors (38900 - 770)	37730	
Prepayments motor expenses	800	56630
Cash at bank	<u>1420</u>	<u>56050</u>

Current Liabilities

Creditors	19240	
Accruals insurance	7835	(27075)
Working capital		<u>28975</u>
Capital employed		<u>27555</u>
		<u>112725</u>

Financed by

Current Account East	10600	10600
West	6900	6900

	East	West	
Capital A/c: balance b/f	60000	30000	19500
Interest on capital	30000	15000	64645
Share of profits	(9170)	(4585)	82145
Drawings	40500	7050	
	<u>44780</u>	<u>19805</u>	

