UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

MARK SCHEME for the June 2005 question paper

7110 PRINCIPLES OF ACCOUNTS

7110/02 Paper 2 (Structured), maximum raw mark 100

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June 2005

GCE O LEVEL

MARK SCHEME
MAXIMUM MARK: 100
SYLLABUS/COMPONENT: 7110/02 PRINCIPLES OF ACCOUNTS Paper 2 (Structured)

1 **(a)**

Purchases Journal

Date	Details	Amount
		$
15 May	Gomez Factors Ltd	900 **(1)**

Purchases Returns Journal

Date	Details	Amount
		$
15 May	Kimber & Sons	80 **(1)**

General Journal

Date	Details	Dr	Cr
		$	$
15 May	Delivery truck/Motor vehicles	20 000 **(1)**	
	Natsui Ltd		20 000 **(1)**
	Purchase of new delivery truck on credit from Natsui Ltd **(1)**		

[5]

(b)

Gomez Factors Ltd Account

		$			$
			15 May	Purchases	900 **(1)**

Kimber & Sons Account

		$			$
15 May	Purchase returns	80 **(1)**	1 May	Balance b/d	470
15 May	Balance c/d	390 **(1)**			
		470			470
			16 May	Balance b/d	390 **(1)of**

Motor Vehicles Account

		$			$
15 May	Natsui Ltd	20 000 **(1)**			

[5]

(c) **(i)** Goods bought on credit
Invoice **(1)**

(ii) Return of damaged goods **[2]**
Credit note **(1)**

Total marks [12]

2 **(a)** Trial Balance as at 30 April 2005

	Dr	Cr	
	$	$	
Fee Income		77 800	
Advertising expenses	12 400		
Heat and light	1 060		
Motor expenses	7 300		
Rent paid	12 800		**(1 mark for every four correct items entries max 3)**
Office expenses	12 240		
Motor vehicles	40 000		
Equipment	12 000		
Capital – Asif		18 000	
Capital – Iqbal		12 000	
Drawings – Asif	8 000		
Drawings – Iqbal	2 000		
	107 800 **(1)**	107 800 **(1) of**	**(equal balances)**

[5]

(b) Profit and Loss Account for the year ended 30 April 2005

	$		$
Advertising expenses	12 400	Fee Income	77 800 **(1)**
Heat and light	1 060		
Motor expenses	7 300	**(2) for five correct expenses**	
Rent	12 800	**(1) for three correct expenses**	
Office expenses	12 240		
Net profit	32 000 **(1)**		
	77 800		77 800

Accept vertical presentation **[4]**

(c) Appropriation Account for the year ended 30 April 2005

	$		$
Share of profit		Net profit	32 000 **(1) of**
Asif 6/10	19 200 **(1) of**		
Iqbal 4/10	12 800 **(1) of**		
	32 000		32 000

(N.B. Award own figures only if no alien items present) **[3]**

Accept vertical presentation

(d) Asif Capital Account

	$			$	
Drawings	8 000	**(1)**	Balance b/d	18 000	**(1)**
Balance c/d	29 200	**(1) of**	Share of profit	19 200	**(1) of**
	37 200			37 200	
			Balance b/d	17 200	

Iqbal Capital Account

	$			$	
Drawings	2 000	**(1)**	Balance b/d	12 000	**(1)**
Balance c/d	22 800	**(1) of**	Share of profit	12 800	**(1) of**
	24 800			24 800	
			Balance b/d	14 800	

(N.B. Award own figures only if no alien items present) **[8]**

Accept vertical presentation

[Total 20]

3 **(a)** Total sales for the year ended 30 April 2005

	$	
Receipts from trade debtors	120 000	**(1)**
Add: debtors' control account 30 April 2005	48 000	**(1)**
	168 000	
Less: debtors' control account 1 May 2004	(24 000)	**(1)**
	144 000	
Receipts from cash sales	18 000	**(1)**
Add: bad debts written off	4 000	**(1)**
Add: discounts allowed	6 000	**(1)**
	172 000	**(1)**

Accept alternative presentation **[7]**

(b) Control accounts provide totals of debtors and creditors.
Mary can see at a glance how much she owes
or
She can also see immediately how much is owed to her.
This helps her control the total levels of credit.

Control accounts are used to help in the construction of final accounts where accounts are not kept under full double entry.

Any 2 x 2 mark **[4]**

(c) It is difficult to use control accounts to locate errors in Mary's accounts because of the lack of double entry
or
Control accounts are of limited use in Mary's business because of the lack of double entry.

Control accounts cannot act as a deterrent against fraud unless internal checks can be carried out.

Cannot check individual debtors and creditors balances.

In Mary's case, the control accounts do not provide a check because ledgers cannot be checked against the total figures from the books of prime entry.

Any 2 x 2 mark
1 for identification
1 for development **[max 4]**

[Total 15]

4 (a) (i) Prime cost

	$	
Direct material	146 300	**(1)**
Direct labour	175 400	**(1)**
Prime cost	321 700	**(1)**

[3]

(ii) Factory cost of production

	$	
Prime cost	321 700	**(1)**
Factory overheads	83 800	**(1)**
Change in work in progress	---	
Factory cost of production	405 500	**(1)**

[3]

(b) Direct costs can be specifically traced to a manufactured item. **(1)**
Indirect costs cannot be traced to a manufactured item. **(1)**
Direct costs are included in prime cost. **(1)**
Indirect costs are included in factory overhead expenses. **(1)** **[4]**

(c) **(i)** Going Concern

The directors of Carter Ltd use the going concern principle because they expect the business to continue for the foreseeable future.

This means that stock should be valued to reflect its normal use in the business and not the need to sell it immediately at auction.

Going concern value maybe higher or lower as work in progress may require finishing, incurring additional cost.

Any 2 x 2 mark
1 for identification
1 for development **[max 4]**

(ii) Prudence (Conservatism)

Used to avoid overstating stock value.

Stock is recorded at cost or net realisable value, whichever is lower.

Net realisable value allows for the need for additional work on work in progress to make it of practical value.

A prudent approach avoids overstating profits.

A prudent valuation will reflect any work in manufacturing and work done on the raw materials converting them to work in progress.

Using the same principles year to year allows for better comparison.

Any 2 x 2 mark
1 for identification
1 for development **[max 4]**

[Total 18]

5 **(a)**

Trading and Profit and Loss Accounts
for the year ended 30 April 2005 **(1)**

	$		$
Stock at 1 May 2004	13 350 **(1)**	Sales	196 300 **(1)**
Purchases	83 500 **(1)**		
	96 850		
Less: stock at 30 April 2005	12 600 **(1)**		
Costs of goods sold	84 250		
Gross profit c/d	112 050		
	196 300		196 300
Wages and salaries		Gross profit b/d	112 050 **(1) of**
[66 400 **(1)** + 5 500 **(1)**]	71 900	Discount received	1 400 **(1)**
Rent and rates paid			
[9 900 **(1)** – 900 **(1)**]	9 000		
General expenses	21 100 **(1)**		
Provision for depreciation of fixtures and fittings			
(20% x 12 200)	2 440 **(2)**		
Provision for doubtful debts			
(3% x 16 300)	489 **(2)**		
Bank charges	120 **(1)**		
Net profit	8 401		
	113 450		113 450

Accept any recognisable layout **[17]**

(b)

Balance Sheet as at 30 April 2005 **(1)**

	Cost	Depr'n	NBV			
	$	$	$			$
Fixed Assets **(1)**						
Fixtures and fittings	12 200 **(1)**	9 760 **(1 of)**	2 440	Capital, 1 May 2004		25 000 **(1)**
				Net profit		8 401 **(1) of**
						33 401
Current Assets **(1)**						
Stock		12 600 **(1)**		*Less*: drawings		13 100 **(1)**
Debtors	16 300 **(1)**			Capital,		
Less: provision for				30 April 2005		20 301 **(1) of**
doubtful debts	489 **(1 of)**	15 811				
Cash at bank				Current Liabilities **(1)**		
[970 **(1)** – 120 **(1)**]		850		Creditors	6 800 **(1)**	
Prepayment		900 **(1)**		Accrual	5 500 **(1)**	
			30 161			12 300
			32 601			32 601

Disallow section heading marks if alien in section **[18]**

[Total 35]