

MARK SCHEME for the May/June 2008 question paper

7110 PRINCIPLES OF ACCOUNTS

7110/02

Paper 2 (Structured), maximum raw mark 120

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1 (a)

George Gale
Cash book

2008		Disc \$	Cash \$	Bank \$		2008		Disc \$	Cash \$	Bank \$
May 25	Balance b/d		80	1640	(2)	May 25	Bank		80	(1)
May 25	Cash			80	(1)	May 26	Drawings			860 (1)
May 27	Sales		900		(1)	May 29	Fixtures and fittings			3500 (1)
May 27	Sally Jones	50 (1)		450	(1)	May 30	Bank deposit		600	(1)
May 28	Bank loan			2000	(1)	May 31	Wages		100	(1)
May 31	Balance c/d			190	(1)	May 31	Balance c/d		200	(1)
		<u>50</u>	<u>980</u>	<u>4360</u>				<u>980</u>	<u>4360</u>	
1 June	Balance b/d		200		(1 of)	1 June	Balance b/d			190 (1 of)

[16]

(b) A cash discount is allowed/received reducing the amount owed by debtors/to creditors for settling a sale/purchase on credit before an agreed date (1)

A trade discount is an amount deducted from cost for bulk purchase/trade custom (1) [2]

(c) Bank – Liability (1 of)

Cash – Asset (1)

Bank deposit account – Asset (1)

Bank loan – Liability (1)

[4]

[Total: 22]

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- 2 (a) Capital expenditure – long-term (1) on fixed assets (1) adding to value of fixed assets (1) Not bought for resale (1)
Revenue expenditure – short-term (1) on current assets (1) or day to day expenses (1)
(Max 2 marks for capital expenditure and 2 for revenue expenditure)
(N.B. Do not accept examples.) [max 4]

- (b) Capital expenditure – Factory OR motor vehicle (1)
Revenue expenditure – Wages/components (parts) (1)
Accept other reasonable examples [2]

- (c) Cost less accumulated depreciation (1)
At valuation (1) At cost (1) At net book value (1) [max 1]

- (d) (i) Reduction in value of fixed assets due to wear and tear. (1)
An estimated cost/expense
(N.B. Accept other appropriate reasons for diminution of value)
The matching of asset cost to a business to period used. (1) [max 1]

- (ii) (\$8000 – \$7000) (1) × 50% = \$500 (1 of) [2]

- (iii)
- | | | | |
|---|--------------|--------------|-----|
| | Dr | Cr | |
| Profit and loss account | \$500 (1 of) | | |
| Provision for depreciation of motor vehicle | | \$500 (1 of) | [2] |

- (iv) Disposal account – delivery vehicle

	\$		\$
Motor vehicle	8000 (1)	Provision for depreciation	7500 (1of)
		Cash/bank/debtor	400 (1)
		Profit and loss	100 (1of)
	<u>8000</u>		<u>8000</u>

[4]

[Total 16]

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- 3 (a) (i) Gross profit/sales $\frac{115\,000}{240\,000} \times 100 = 47.9\%$ (2)
- (ii) Net profit/sales $\frac{30\,000}{240\,000} \times 100 = 12.5\%$ (2)
- (iii) Net profit/opening capital $\frac{30\,000\text{ (1)}}{260\,000\text{ (1)} + 40\,000\text{ (1)} - 30\,000\text{ (1)}} = 1.1\%$ (1 of) [15]
- (iv) Working capital ratio (current ratio) 60 000 : 30 000 = 2:1 (2)
- (v) Quick ratio (acid test) (60 000 – 20 000) : 30 000 = 1.3:1 (2)
- (vi) Rate of stock turnover $\frac{125}{(20 + 10)/2} = 8.3\text{ times}$ (2)
- (b) (i) Rate of stock turnover $\frac{127}{(18 + 10)/2} = 9.1\text{ times}$ (2) [2]
- (ii) Working capital (60 000 – 2 000) (1) – 30 000 (1) = 28 000 (1 of) [3]
- (c) (i) Profits are needed for reinvestment (1)
 Profits are needed to generate income for Ahmed (1)
 Adequate liquidity is needed so debts can be paid on time (1)
 Profitability/liquidity is needed for business to continue (1)
Accept reasonable alternatives [max 3]
- (ii) The business achieves good rates of profitability (1)
 There is sufficient liquidity to pay debts when due (1)
 Stock is turned over every one and a half months which, depending on type of stock, should limit wastage/obsolescence (1)
 By withdrawing 40 000 Abdul has decreased capital by 10 000 (1)
Accept reasonable alternatives [max 3]
- [Total: 26]

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- 4 (a)** Bookkeeping is the process of recording data **(1)**
OR
Bookkeeping involves preparing accounts from source documents or prime entry records **(3)**

Accounting involves identifying, measuring and communicating financial information **(2)**
OR
Accounting provides information for decision making **(2)** [max 4]
- (b)** A trading business is involved with buying and selling goods. **(2)**

A service business provides services/which benefits others **(2)**
(Accept examples which are appropriate) [4]
- (c)** Four benefits
Accuracy **(1)**
Speed of processing information **(1)**
Ability to process high volumes **(1)**
Ease of performing reconciliations **(1)**
Large amounts of data can be stored **(1)**
Improved security **(1)**
Access to more customers possible (Internet/email) **(1)**
Software minimises staff requirements for Julie Carter **(1)** [max 4]
- (d) (i)** Clients would consider Julie Carter trustworthy **(1)** not sharing commercial information. **(1)**

Clients would assume she will act competently **(1)** so accounts would be correct. **(1)**

Clients would accept that any advice given by Julie Carter would be for the clients' best interests **(1)** and not Julie's. **(1)**

Clients would expect any decisions taken by Julie Carter in running her business would not be damaging to them. **(2)**
Allow other acceptable reasons [max 4]

[Total: 16]

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5 (a)

East and West
Trading, Profit and Loss and Appropriation Account
for the year ended 31 May 2008 (1)

Opening stock		\$	15 200	(1)	Sales	\$	411 320
Purchases	207 620				Less: returns		<u>7 340</u>
Less: returns	(1 470)	(1)					<u>403 980</u> (1)
Add: carriage	2 160	(1)	<u>208 310</u>				
			<u>223 510</u>				
Closing stock			<u>16 100</u>				
Cost of goods sold			207 410	(1)			
Gross profit c/d			<u>196 570</u>				
			<u>403 980</u>				<u>403 980</u>
Wages and salaries							
(93 700 (1) + 7835 (1))			101 535		Gross profit b/d	196 570	(1 of)
Motor expenses							
(14 600 (1) – 800 (1))			13 800				
Repairs			2 000	(1)			
General expenses			41 640				
Provision for depreciation							
– fixtures and fittings							
[20% × (38 000 – 3000)]			7 000	(1)			
Provision for depreciation							
– motor vehicles							
[50% × (21 000 – 15 750)]			2 625	(1)			
Provision for doubtful debts							
(2% × 38 500)			770	(1)			
Net profit c/d			<u>27 200</u>				
			<u>196 570</u>				<u>196 570</u>
Partnership salary					Net profit b/d	27 200	
– West	3 500	(1)					(1 of)
Interest on capital							
– East	3 000	(1)					
– West	<u>1 500</u>	(1)	4 500				
Share of profit							
– East	12 800	(1 of)					
– West	<u>6 400</u>	(1 of)	<u>19 200</u>				
			<u>27 200</u>				<u>27 200</u>

*Marks for share of profits if no alien items and in correct proportion.
Accept any recognisable layout.*

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(b)

East and West
Balance Sheet as at 31 May 2008

	Cost	Accumulated Depreciation	NBV		East	West		
<u>Fixed assets</u>								
Land and buildings	70 000	---	70 000	(1)	Capital	<u>60 000</u>	<u>30 000</u>	(1 for both) 90 000
Fixtures and fittings	38 000	21 000 (1 of)	17 000 (1)		Current account Opening balance	10 600	6 900	
Motor vehicles	<u>21 000</u>	<u>18 375</u> (1 of)	<u>2 625</u> (1)		Partnership salary		3 500 (1)	
	<u>129 000</u>	<u>39 375</u>	89 625		Interest on capital	3 000 (1)	1 500 (1)	
<u>Current assets</u>					Share of profit	<u>12 800</u> (1 of)	<u>6 400</u> (1 of)	<u>28 600</u>
Stock						<u>26 400</u>	<u>18 300</u>	<u>118 600</u>
Debtors		16 100			Drawings	<u>9 050</u> (1)	<u>7 050</u> (1)	
Prov'n for doubtful debts	38 500					<u>17 350</u> (1 of)	<u>11 250</u> (1 of)	
Cash at bank					<u>Current liabilities</u>			
Prepaid motor expenses	<u>770</u>	37 730 (1 of)			Creditors		19 240 (1)	
		1 420 (1)			Accrued wages and salaries		<u>7 835</u> (1)	<u>27 075</u>
		<u>800</u>	<u>56 050</u>					<u>145 675</u>
			<u>145 675</u>					

Accept any recognisable layout

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