

MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers

7110 PRINCIPLES OF ACCOUNTS

7110/22

Paper 2 (Structured), maximum raw mark 100

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1 (a)

Three Column Cash Book (Bank columns only)

	\$		\$	
April 27 Sales	630 (1)	April 24 Balance b/d	150 (1)	
April 28 Loula	1920 (1)	April 25 Drawings	200 (1)	
		April 26 Kerai	388 (1)	
		April 26 Susan	720 (1)	
		April 29 Wages	430 (1)	
		April 30 Balance c/d	662 (1)	
	<u>2550</u>		<u>2550</u>	[8]

(b)	May 1 Balance b/d	662	May 1 Balance b/d	686	
	May 1 Dividend	<u>24</u> (1)		<u>686</u>	
		<u>686</u>		<u>686</u>	
	May 1 Balance b/d	686 (1of)			[2]

(c)

Bank Reconciliation Statement at 1 May 2011

	\$	
Balance as per Bank Statement	(804) Dr	(1)
Add:		
Cheque banked – Loula	<u>1920</u>	(2)
	1116	
Less:		
Unpresented cheque-wages	<u>(430)</u>	(2)
Balance as per Cash Book	<u>686</u>	(1of)

Accept alternative presentations i.e. starting with Cash book balance. [7]

(d)

	Ledger account	Book of prime entry	Both a ledger account and a book of prime entry
Stock	✓		
Purchase journal		✓ (1)	
Cash book			✓ (1)
Provision for depreciation	✓ (1)		

[3]

[Total: 20]

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- 2 (a) To account for cost consumed / used during the financial year
 To charge a share of the cost to the income statement for the year
 Reduce the book value of non-current assets in the balance sheet
 To spread the cost over its useful economic life
 Wear & tear, passage of time, obsolescence & depletion (2 per point)
 Comply with accounting principles and concepts, e.g. prudence, matching.
(2–0) × 2 points [max 4]

- (b) Machinery will lose a high proportion of its value in the early years
 Low maintenance costs in early years, higher in later years
 Changes in technology may outdate the machinery
(2–0) × 2 points [2]

- (c) Calculation of depreciation:

	Machinery	Office furniture	Loose tools	
	\$	\$	\$	
Cost/value	80 000	15 000	1 050	
Additions	<u>18 000</u>	-	630	
	-	(1 000)	-	
	98 000	14 000	1 680	
Accum Prov	<u>60 000</u>	<u>4 800</u>		
	38 000	9 200		
Depreciation 25%	<u>9 500</u> (2–0)	<u>1 400</u> (2–0)	280 (2–0)	
Net book value	<u>28 500</u>	<u>7 800</u>	<u>1 400</u>	[6]

- (d)
- | | | |
|--------------|-----------------------|-----|
| | \$ | |
| Cost | 1 000 | |
| Depreciation | <u>200</u> (1) | |
| | 800 | |
| Sale price | <u>550</u> (1) | |
| Loss on sale | 250 (1of) | [3] |

- (e) Non-current assets

	Cost	Accumulated Depreciation	Net book value	
	\$	\$	\$	
Machinery	98 000	69 500 (>60k)	28 500 (1of)	
Office furniture	14 000	6 200 (>5k)	7 800 (1of)	[2]

- (f)

	Capital expenditure	Revenue expenditure
Purchase of spares for machinery		✓ (1)
Installation of additional machinery	✓ (1)	
Repairs to office equipment		✓ (1)
Purchase of additional loose tools	✓ (1)	

[4]

[Total: 21]

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3 (a)

	\$		\$	
Bank received	60 500	Bank payments	34 900	
Trade receivables 30 April	<u>8 400</u>	Trade payables 30 April	<u>9 300</u>	
	68 900		44 200	
Trade receivables 1 May	<u>9 750</u>	Trade payables 1 May	<u>10 500</u>	
Sales	<u><u>59 150</u></u> (3)	Purchases	33 700 (3)	[6]

(b)

Tanvir
Income Statement for the year ended 30 April 2011

	\$	\$	
Revenue (sales)		59 150	(1of)
Less Cost of sales			
Opening inventory	5 250		
Add purchases	<u>33 700</u> (1of)		
	38 950		
Less closing inventory	<u>(11 000)</u>		
Cost of sales		<u>(27 950)</u>	
Gross profit		31 200	(1of)
Less			
Wages	15 000		
Light & heat	3 350 (1)		
General expenses	6 000		
Loan interest	1 200 (1)		
Loss on sale	250 (1)		
Depreciation	<u>5 000</u> (2)		
		<u>(30 800)</u>	
Profit for the year		<u>400</u> (1of)	[9]

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(c)

Balance Sheet at 30 April 2011

	\$	\$	
<u>Non-current assets</u>		42 000	
<u>Current assets</u>			
Inventory	11 000		
Trade receivables	<u>8 400</u> (1)		
	19 400		
<u>Current Liabilities</u>			
Trade payables	9 300		
Accruals	1 450 (1)		
Bank overdraft	<u>10 250</u>		
	21 000		
Net Current Assets		<u>(1 600)</u>	
		40 400	
<u>Long term liabilities</u>			
6% Bank loan		<u>(20 000)</u> (1)	
		<u>20 400</u>	
Capital 1 May 2010		25 000	
Add Profit for the year		<u>400</u> (1of)	
		25 400	
Less Drawings		<u>(5 000)</u> (1)	
		<u>20 400</u>	[5]
			[Total: 20]

4 (a) (i)	\$		
Opening inventory	5 500		
Purchases	<u>72 000</u>		
	77 500		
Closing inventory	<u>7 500</u>		
Cost of sales	70 000 (1)		
Gross profit (50%)	35 000 (1)		
Revenue	105 000 (1 of)		[3]
(ii) <u>Cost of sales</u>	<u>\$70 000</u> (1of) = 10.8 times (1 of)		
Average inventory	\$6 500 (1) (Need 'times')		[3]
(iii)	\$		
Gross profit	35 000		
Operating expenses	<u>23 500</u>		
Net profit	11 500 (2 or 1of) (if use own gross profit in (a)(i))		[2]
(iv)	$\frac{\text{Net profit}}{\text{Revenue}} \times 100 = \frac{11\,500}{105\,000} \times 100$ (1of) = 11% (1 of) (accept 10.9%. need % label)		[3]
(v)	$\frac{\text{Net profit}}{\text{Capital}} \times 100 = \frac{11\,500}{75\,000} \times 100$ (1of) = 15.3% (1of)		[3]

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- (b) The seller will make a **small mark up** (or **low selling price**) on each item (1)
will have a **high volume** of sales (1). [2]

(c)

	Increase rate of inventory turnover	Decrease rate of inventory turnover
(i) Hold a 'Sale' and reduce prices by 20%.	✓ (1)	
(ii) Increase the inventory by \$20 000.		✓ (1)
(iii) Raise selling prices by 10%.		✓ (1)

[3]

[Total: 19]

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Fu, Li and Yang

Income Statement and Appropriation Account for the year ended 30 April 2011 (1)

	\$	\$
Revenue		209 500
Opening inventory	30 650	
Add Purchases	111 200	
Less returns	<u>(4 750)</u> (1)	
	137 100	
Closing inventory	<u>28 100</u> (1)	
Cost of sales		<u>109 000</u> (1)
Gross profit		100 500 (1of)
Discount received		<u>5 300</u> (1)
		105 800
Rent (7500 + 2500)	10 000 (1)	
Salaries & Wages	42 100	
Heat and light	3 890	
General expenses		
(16 750 – 4 200)	12 550 (1)	
Marketing	12 050	
Depreciation-		
Motor vehicles	2 560 (2)	
Fixtures	3 000 (2)	
Increase in PDD	<u>750</u> (2)	
		<u>86 900</u>
Profit for the year		18 900 (1of)
Interest on drawings:		
Fu	500 (1)	
Li	500 (1)	
Yang	<u>600</u> (1)	
		<u>1 600</u>
		20 500
Interest on capital:		
Fu	1 600 (1)	
Li	1 400 (1)	
Yang	<u>1 000</u> (1)	
		(<u>4 000</u>)
		16 500
Share of profit:		
Fu	6 600 (1of)	
Li	6 600 (1 of)	
Yang	<u>3 300</u> (1of)	
		<u>16 500</u>

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(b)

Statement of Financial Position at 30 April 2011

	\$	\$	\$
<u>Non-current assets</u>	Cost	Accumulated Depreciation	Net Book Value
Premises			44 750
Motor vehicles	16 000	5 760	10 240 (1of)
Fixtures	<u>30 000</u>	<u>20 500</u>	<u>9 500</u> (1of)
	<u>46 000</u>	<u>26 260</u>	64 490 (1of)
<u>Current assets</u>			
Inventory		28 100	
Trade receivables	45 000		
Less PDD	<u>2 250</u>	(1of) (<1500)	
		42 750 (1of) (providing PDD is deducted)	
Prepaid		4 200 (1)	
Bank		<u>7 560</u>	
		82 610	
less			
<u>Liabilities due in less than one year</u>			
Trade payables	54 700		
Other payables	<u>2 500</u> (1)		
	<u>57 200</u>		
Net current assets (accept working capital)			<u>25 410</u> (1 of labelled)
			<u>89 900</u>

Financed by:

	Fu \$	Li \$	Yang \$	Total \$
Capital:	<u>40 000</u>	<u>35 000</u>	<u>15 000</u> (1)	90 000
Current:				
Opening balance	2 500 Cr	1 500 Cr	(1 000) Dr (1)	
Transfer of capital			10 000 (1)	
Interest on capital	1 600	1 400	1 000 (1of)	
Share of profit	<u>6 600</u>	<u>6 600</u>	<u>3 300</u> (1of)	
	<u>10 700</u>	<u>9 500</u>	<u>13 300</u>	
Interest on drawings	500	500	600 (1of)	
Drawings	<u>10 000</u>	<u>10 000</u>	<u>12 000</u> (1)	
	<u>10 500</u>	<u>10 500</u>	<u>12 600</u>	
Closing balances	<u>200</u>	<u>(1 000)</u>	<u>700</u> (1of)	
				<u>100</u> Dr
				<u>89 900</u>

[16]

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Alternative presentation accepted

Current Accounts

	Fu \$	Li \$	Yang \$			Fu \$	Li \$	Yang \$	
Balance b/d			1 000	(1)	Balance b/d	2 500	1 500		
Int on Dra'gs	500	500	600	(1 of)	Capital transfer			10 000	(1)
Drawings	10 000	10 000	12 000	(1)	Int on cap	1 600	1 400	1 000	(1 of)
					Share of profit	6 600	6 600	3 300	(1 of)
Balance c/d	200		700	(1 of)	Balance c/d		1 000		
	<u>10 700</u>	<u>10 500</u>	<u>14 300</u>			<u>10700</u>	<u>10 500</u>	<u>14 300</u>	

[16]

[Total: 40]