

MARK SCHEME for the November 2004 question paper

7110 PRINCIPLES OF ACCOUNTS

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

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November 2004

GCE O LEVEL

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

Page 1	Mark Scheme	Syllabus	Paper
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1 (a)

Dr		Vigo Cash Book		Cr	
	\$		\$		
July 31 Balance b/d	790	(1)	July 31 Dishonoured cheque - Parker	260	(1)
			31 Bank charges	20	(1)
31 Dividend	<u>25</u>	(1)	31 Balance c/d	<u>535</u>	
	<u>815</u>			<u>815</u>	
Aug 1 Balance b/d	535	(1 of)			

[5]

(b) Vigo
Bank Reconciliation Statement as at 31 July 2004

	\$	
Balance as per cash book	(1) 535	(1 of)
Add: unpresented cheque - Kings	<u>220</u>	(1)
	755	
Less: uncredited deposit	<u>200</u>	(1)
Balance as per bank statement	(1) <u>555</u>	(1)

[6]

- (c)** The cash book is the book of original entry for cash and bank transactions, recorded from source documents like cheques and receipts. (1)

It contains ledger accounts for cash and bank. (1)

[2]

Total marks [13]

2 (a)

Category	Item	Correct Treatment
(i) Capital income	Income from sale of fixed assets (1)	It will reduce the fixed assets in the Balance Sheet (1)
(ii) Capital expenditure	Purchase of fixed assets (1)	It should appear as fixed assets in the Balance Sheet (1)
(iii) Revenue income	Discounts received (1)	It should appear as a credit in the Profit and Loss Account (1) OR be added to the gross profit in the Profit and Loss Account (1)
(iv) Revenue expenditure	Rent and rates (1)	It should appear as a debit in the Profit and Loss Account (1) OR be deducted from the gross profit in the Profit and Loss Account (1)

[8]

(b)

	\$
Incorrect net profit	10 000
<u>Add:</u> discounts received	900 (1)
<u>Less:</u> rent and rates	(5 000) (1)
<u>Add:</u> purchase of fixed assets	30 000 (1)
<u>Less:</u> income from sale of fixed assets	<u>(20 000)</u> (1)
Corrected net profit	<u>15 900</u> (1 of)

[5]

Note: Accept any format

Total marks

[13]

3 (a) Accumulated Fund for the Mercury Sports Club at 1 August 2003.

	\$	\$
Fixtures and fittings		2 200
Stock		340
Cash/Bank		<u>490</u> (1)
		3 030 (1 of)
Rent owing	400 (1)	
Subscriptions in advance	75 (1)	<u>475</u>
		<u>2 555</u> (1 of)

[5]

Page 3	Mark Scheme	Syllabus	Paper
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- (b) Calculation of the profit made on the sale of refreshments.

	\$	\$	
Sales		2 000	(1)
Opening stock	340		(1)
Purchases	<u>1 400</u>		(1)
	1 740		
Less: closing stock	480	<u>1 260</u>	
Profit from the sale of refreshments		<u>740</u>	(1)

[5]

Note: Accept any format

- (c) Subscriptions [75 (1) + 3 010 (1) + 100 (1)] = 3 185

[3]

- (d) Receipts and Payments Account summarises cash transactions whereas the Income and Expenditure Account is accruals based

Receipts and Payments account indicates the cash/bank balance whereas the Income and Expenditure Account provides a calculation of the surplus/deficit for the period.

2 points, each identification (1) + development (2)

[6]

Total marks [19]

- 4 (a) Furley - ratios for 2003.

		2003	
Gross profit/sales	$\frac{200 - (10 + 110 - 20)}{200} \times 100$	50%	(2)
Net profit/sales	$\frac{200 - (10 + 110 - 20) - 50}{200} \times 100$	25%	(2)
Net profit/closing capital	$\frac{200 - (10 + 110 - 20) - 50}{80} \times 100$	62.5%	(2)
Rate of stock turnover	$\frac{10 + 110 - 20}{(10 + 20)/2}$	6.7 times	(2)

OR

OR

$$\frac{(10 + 20)/2}{10 + 110 - 20} \times 365 \quad 54.75 \text{ days} \quad (2)$$

[8]

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- (b) Gross profit/sales
 Direction of change (1 of)
 Valid reason (1 of)

Net profit/sales
 Direction of change (1 of)
 Valid reason (1 of)

Net profit/closing capital
 Direction of change (1 of)
 Valid reason (1 of)

Rate of stock turnover
 Direction of change (1 of)
 Valid reason (1 of)

Accept any reasonable alternatives related to the figures in (a).

[8]

(c) Problems

Inability to pay debts when due
 Suppliers refuse to provide goods/services until payment received
 Cheques returned by bank

Any 2 x 1 mark

Solutions

Introduction of new capital
 Obtain loan
 Sell fixed assets

Any 2 x 1 mark

NOT internal adjustments within constituents of working capital

[4]

Total marks [20]

Page 5	Mark Scheme	Syllabus	Paper
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5 (a)

John Cosway
Trading and Profit and Loss Account
for the year ended 31 August 2004 (1)

	\$		\$
Stock at 1 September 2003	9 650 (1)	Sales	121 300 (1)
Purchases	67 600 (1)		
Carriage on purchases	<u>1 260 (1)</u>		
	78 510		
Less: stock at 31 August 2004	<u>11 200 (1)</u>		
Cost of goods sold	67 310		
Gross profit c/d	<u>53 990 (1)</u>		
	<u>121 300</u>		<u>121 300</u>
Wages and salaries		Gross profit b/d	53 990
[23 700(1) + 2 350(1)]	26 050	Discount received	460 (1)
Rent and rates		Rent received	1 750 (1)
[7 350 (1) - 150 (1)]	7 200		
Insurance	1 480 (1)		
Sundry expenses	10 760 (1)		
Provision for doubtful debts			
[4% x 11 250]	450 (2)		
Provision for depreciation:			
Fixtures and equipment	2 000 (1)		
Accountancy fees	1 500 (1)		
Net profit	<u>6 760 (1)</u>		
	<u>56 200</u>		<u>56 200</u>

Accept alternative format

[20]

Page 6	Mark Scheme	Syllabus	Paper
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(b)		Balance Sheet as at 31 August 2004		(1)
	\$	\$	\$	
Fixed Assets			Capital, 1 Sept 2003	29 000 (1)
Fittings and equipment		8 000 (1)	Net profit	<u>6 760</u> (1 of)
(10 000 - 2 000)				35 760
Current Assets			Drawings	<u>18 220</u> (1)
Stock		11 200 (1)	Capital, 31 Aug 2004	17 540 (1)
Debtors	11 250		Current Liabilities	
Less: provision for			Creditors	7 200 (1)
doubtful debts	<u>450</u>	10 800 (2)	Bank overdraft	1 560 (1)
Prepaid rent and rates	<u>150</u> (1)		Wages and salaries	
		22 150	accrued	2 350 (1)
		<u>30 150</u>	Accountancy	
			fee accrued	<u>1 500</u> (1)
				<u>12 610</u>
				<u>30 150</u>

(1) mark for acceptable layout

Accept alternative format

[15]

Total marks [35]