

**MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers**

7110 PRINCIPLES OF ACCOUNTS

7110/02

Paper 2 (Structured), maximum raw mark 120

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1 (a) (i) Running balance format (1) [1]

(ii) Balance of account always available. (2)
Format used in computerised accounting. (2) [max 2]

(b)

Insurance account			
		\$	\$
1/9/2010	Balance b/d	280	30/9/2010 Income statement (1) 310 (1)
1/9/2010	Bank (1)	360 (1)	(profit and loss)
			30/9/2010 Balance c/d 330
		<u>640</u>	<u>640</u>
1/10/2010	Balance b/d	330 (1)of	

Gul & Co account			
		\$	\$
1/9/2010	Balance b/d	450	20/9/2010 Bank 441 (1)
15/9/2010	Sales	1360 (1)	20/9/2010 Discount allowed (1) 9 (1)
			30/9/2010 Balance c/d 1360
		<u>1810</u>	<u>1810</u>
1/10/2010	Balance b/d	1360 (1)of	

(c)

Account	Ledger
Insurance	General or Nominal (1)
Gul & Co	Sales (1)

[2]

(d) (i) Invoice (1) [1]

(ii) Sales journal or sales day book (1) [1]

(e) (i) The insurance is for a 12 month period to 31 August 2011. Only one month of this payment relates to the current year ended 30 September 2010. (2) [2]

(ii) Accrual or matching concept (1) [1]

[Total: 20]

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2 (a)

	Journal	
	\$ Dr	\$ CR
Sales	3 000	(1)
Office equipment/Disposal		3 000 (1)
Purchases	1 300	(1)
Alana		1 300 (1)
Buildings insurance	425	(1)
JGL Insurance		425 (1)

Mark awarded for figure and detail.

[6]

(b) (i) Principle (1)

(ii) Reversal (1)

(iii) Omission (1)

[3]

(c)

	Gross profit	Profit for the year (Net profit)
	\$	\$
Draft profit	60 000	15 000
Error 1	–3 000 (1)	–3 000 (1)
Error 2	–1 300 (1)	–1 300 (1)
Error 3	No effect (1)	–425 (1)
Revised profit	55 700 (1)	10 275 (1)

[8]

(d) Speed of processing (1)

Ease of storage of data (1)

Security of computer records (1)

Improved accuracy (1)

Automatic final accounts and reconciliations (1)

[max 2]

[Total 19]

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3 (a)

Harland Ltd			
Appropriation Account for the year ended 31 October 2010			
	\$	\$	\$
Profit for the year (Net profit)			65 000
Less Transfer to general reserve		25 000 (1)	
Dividends – Preference paid	5 000 (1)		
proposed	<u>3 000 (1)</u>		
		8 000	
Ordinary proposed		<u>20 000 (1)</u>	
			<u>53 000</u>
Retained profit for the year			12 000 (1)
Add retained profit brought forward			<u>75 000</u>
Retained profit carried forward			<u>87 000 (1)</u>

Allow acceptable alternative formats.

[6]

(b)

Harland Ltd			
Extract from Balance Sheet at 31 October 2010			
	\$	\$	
Share Capital	Authorised	Issued	
4% Cumulative preference shares of \$1 each	250 000	200 000	
Ordinary shares of \$1 each	<u>500 000</u>	<u>400 000</u>	
	<u>750 000 (1)</u>	600 000 (1)	
Reserves			
General reserve	135 000 (1)		
Profit and loss account (retained profits)	<u>87 000 (1of)</u>	<u>222 000</u>	
Shareholders' funds		822 000 (1)	

Allow acceptable alternative formats.

[5]

(c)

	\$	
Shareholders funds	822 000	
6% Debentures	<u>100 000</u>	
Capital employed	922 000 (1of)	

[1]

- (d) Where dividend cannot be paid on preference shares in a particular year the right to that dividend is lost. Cumulative preference shareholders have the right to receive unpaid dividend in a subsequent year. (2)

[2]

(e) Ordinary shares

Debentures

Owners of the business
No guarantee of dividend
No set dividend rate
No date for repayment

Not owners of the business
Guaranteed interest
Set interest rate
Set date for repayment

One point × (2)

[2]

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- (f) Improve comparison between financial statements. (1)
Common set of rules used throughout the accounting world. (1)
Information is more reliable. (1) [max 2]

- (g) Capital expenditure is the purchase of non current (fixed) assets or expenditure to add to the value of an existing non current (fixed) asset. (2) [2]

- (h) (i) Revenue (1)

- (ii) Capital (1)

- (iii) Revenue (1) [3]

[Total:23]

4	(a) Current ratio,	30 September 2009	$\frac{55 + 50 + 15}{30} = \frac{120}{30}$	4.0:1 (2)	
		30 September 2010	$\frac{60 + 90}{75 + 45} = \frac{150}{120}$	1.25:1 (2)	
	Quick (acid test) Ratio,	30 September 2009	$\frac{50 + 15}{30} = \frac{65}{30}$	2.17:1 (2)	
		30 September 2010	$\frac{90}{75 + 45} = \frac{90}{120}$	0.75:1 (2)	[8]

- (b) Purchase of non-current (fixed) assets
Trade receivables (debtors) not collected
Increased inventory(stock)
One reason × (2) [2]

- (c) Issue more shares
Extend the amount due in more than one year
Reduce trade receivables (debtors)
Sell non-current (fixed) assets
Extend trade payables (creditors)
Reduce inventory(stock)
Four reasons × (2) per point [8]

[Total: 18]

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5 (a)

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Income Statement (Trading and Profit & Loss Account)
for the year ended 30 September 2010.

	\$	\$	\$	
Revenue (sales)			155 000	(1)
Less Sales returns			<u>9 500</u>	(1)
			145 500	
Less Cost of sales				
Inventory (opening stock)		11 500	(1)	
Ordinary goods purchased				
(purchases)	70 000	(1)		
Less goods for own use	<u>1 250</u>	(1)		
	68 750			
Carriage inwards	<u>3 000</u>	(1)		
			<u>71 750</u>	
			83 250	
Less Inventory (closing stock)		<u>14 600</u>	(1)	
			<u>68 650</u>	
Gross profit			76 850	(1)
Add Other income				
Discount received			5 600	(1)
Decrease in Provision for Doubtful Debts			<u>250</u>	(2)
			82 700	
Less Expenses				
Salaries (23 750 + 2 600)	26 350	(2)		
Rent and rates	6 800	(1)		
Sundry expenses	14 150	(1)		
Advertising (6 200 – 300)	5 900	(2)		
Depreciation on motor vehicles	8 500	(1)		
Office equipment	2 600	(1)		
Bad debt	4 250	(1)		
Loan interest	<u>250</u>	(2)		
			<u>68 800</u>	
Profit for the year(net profit)			<u>13 900</u>	[22]

Calculation of Provision for Doubtful debts

$\$23\,000 - \$4\,250 = \$18\,750 \times 4\% = \750 less $\$1\,000 = \250 decrease

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(b)

Balance Sheet at 30 September 2010

	\$ Cost	\$ Depreciation to date	\$ Book value	
Non-current (fixed) assets				
Motor vehicles	42 000	16 500	25 500	(1)
Office equipment	<u>26 000</u>	<u>6 600</u>	<u>19 400</u>	(1)
	<u>68 000</u>	<u>23 100</u>	<u>44 900</u>	(1)
Current assets				
Inventory (stock)		14 600		(1)
Trade receivables (debtors)	18 750			
Less Provision for doubtful debts	<u>750</u>			
		18 000		(2)
Other receivables (prepayments)		<u>300</u>		(1)
		<u>32 900</u>		
Current liabilities				
Trade payables (creditors)	18 300			(1)
Other payables (accruals) (2 600 + 250)	2 850			(2)
Short term loan	10 000			(1)
Bank overdraft	<u>16 000</u>			(1)
		<u>47 150</u>		
Net current assets			(14 250)	(1)
			<u>30 650</u>	
Financed by				
Equity (capital)				
Opening balance (40 000 – 10 000)			30 000	(2)
Plus Profit for the year (net profit)			<u>13 900</u>	(1)
			<u>43 900</u>	
Less Drawings (12 000 + 1 250)			<u>13 250</u>	(2)
			<u>30 650</u>	
				[18]
				[Total: 40]