

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2012 series

7110 PRINCIPLES OF ACCOUNTS

7110/22

Paper 2 (Structured), maximum raw mark 120

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a)

Jane
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van	1500	
Shop fixtures	250	
Cash	500	
Peter – Loan		600
Capital		1650 (2)
	2250 (1)	2250 (1)

[4]

(b)

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital
Purchased goods, \$600, on credit from Punto	<i>Purchases journal</i>	<i>Purchases</i>	<i>Punto</i>	<i>No effect</i>
Sold goods list price, \$750, on credit to Yuen	Sales journal (1)	Yuen (1)	Sales (1)	+\$450 (1)
Sold all the shop fixtures for cash \$200	Cash book (1)	Cash (1)	Fixtures (Disposals) (1)	–\$50 (1)
Paid wages by cash \$150	Cash book (1)	Wages (1)	Cash (1)	–\$150 (1)
Yuen returned goods with a list price of \$100	Sales returns journal (1)	Sales returns (1)	Yuen (1)	–\$60 (1)

[16]

[Total: 20]

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2 (a)

Peng
Trial Balance at 31 August 2012

	Debit \$	Credit \$	
Capital		18 240	(1)
Bank overdraft		3 000	(1)
Fixtures and fittings	14 100		
Provision for depreciation – Fixtures and fittings		8 800	
Inventory	14 200		
Trade receivables	12 300		
Trade payables		9 900	(1)
Revenue		110 000	
Purchases	51 000		(1)
Discount received		1 800	(1)
Wages and salaries	26 000		(1)
Sundry expenses	34 000		
Discount allowed	620		
Suspense (1)		480	(2)
	<u>152 220</u>	<u>152 220</u>	[9]

- (b) 1. Commission (1)
2. Principle (1)
3. Reversal (1)

[3]

(c)

	Journal Dr \$	Cr \$	
A.Winscom	200		(1)
W.Wilson		200	(1)
Fixtures	900		(1)
Purchases		900	(1)
Wages	3000		(1)
Bank		3000	(1)
Suspense	480		(1)
Discount received		480	(1)
			[8]

[Total: 20]

- 3 (a) Individual accounts of e.g. trade receivables, maintained
Balances available at all times
Each transaction recorded for ease of reference
Other valid reasons
(1) × 2 points

[2]

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(b) Leong

Statement of Affairs at 30 September 2012

	\$	\$	
Non-current assets			
Motor vehicle		7 700	(1)
Current assets			
Inventory	11 600		
Trade receivables (6 500 – 500)	6 000		(2)
Other receivables (350 + 100)	450		(2)
Bank deposit	2 600		
Cash	<u>50</u>		
	20 700		(1)
Current liabilities			
Trade payables	8 100		
Other payables	<u>900</u>		
	9 000		(1)
Net current assets		<u>11 700</u>	
		19 400	
Non current liabilities			
Loan		<u>(9 000)</u>	(1)
		<u>10 400</u>	
Capital		<u>10 400</u>	(2 or 1 of) [10]

(c)	\$		
Opening capital	6 000	(1)	
Profit for the year	<u>13 200</u>	(1 of)	
	19 200		
Drawings	<u>(8 800)</u>	(1)	
Closing capital	<u>10 400</u>	(1 of)	Accept alternative formats [4]

(d) (i)	130 hours × \$6	= \$780	
	10 hours × \$9	= <u>\$90</u>	
		\$870	(1)
	Less tax	<u>\$145</u>	
	Net pay	<u>\$725</u>	(1) [2]
(ii)	Gross pay	\$870	
	Employers social security	<u>\$87</u>	(1 of)
	Total cost of employing Fan	<u>\$957</u>	(1 of) [2]

[Total: 20]

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- 4 (a) (i)
- | | | | |
|--|--|-----------|-------------|
| | | \$000 | |
| | Gross profit (Cost of sales \$320 × 25%) | 80 | (1) |
| | Expenses | <u>60</u> | |
| | Profit for the year | <u>20</u> | (2 or 1 of) |
- [3]
- (ii) Turnover of inventory
- $$\frac{320}{(25 + 65)/2} = 7.1 \text{ times (3)}$$
- [3]
- (iii) Gross profit/sales percentage
- $$\frac{80 \times 100}{400} = 20\% \text{ (3)}$$
- [3]
- (iv) Net profit to sales percentage
- $$\frac{20 \times 100}{400} = 5\% \text{ (3)}$$
- [3]
- (v) Working capital ratio (current ratio)
- $$\frac{65 + 70}{75 + 15} = 1.5:1 \text{ (3)}$$
- [3]
- (b) Reduced mark up/selling price on goods
Increased advertising and market awareness
Improved quality of the goods purchased
Improved the range of goods for sale
Other valid points accepted
- (1) × 2 points
- [2]
- (c) The ratio is below the recommended 2:1, but is within an acceptable range.
Other valid points accepted.
- (2) × 1 point
- [2]
- (d) Sell surplus non-current assets
Obtain long term loan
Introduce additional capital
Other valid points accepted
- (1) × 1 point
- [1]

[Total: 20]

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5 (a)

Khan

Manufacturing Account for the year ended 31 July 2012

	\$	\$	
Inventory of raw materials at 1 August 2011	26 000		(1)
Purchases of raw materials	<u>183 000</u>		(1)
		209 000	
Less: Inventory of raw materials at 31 July 2012	<u>29 000</u>		(1)
Cost of raw materials consumed	180 000		(1)
Production wages (164 500 + 6 500)	171 000		(1)
Direct factory expenses	<u>38 000</u>		(1)
Prime cost (1)		389 000	(1 of)
Factory overheads:			
Indirect factory expenses	19 700		(1)
Rent and rates	16 500		(1)
Production management salaries	63 000		(1)
Provision for depreciation of plant and machinery	<u>20 800</u>		(1)
		<u>120 000</u>	
		509 000	
Less Increase in work in progress (36 000 – 40 000)		<u>(4 000)</u>	(1)
Production Cost		<u>505 000</u>	(1) [14]

(b)

Income Statement for the year ended 31 July 2012

	\$	\$	
Revenue		680 000	(1)
Inventory of finished goods at 1 August 2011	48 000		
Production cost	505 000		(1 of)
Drawings by owner	<u>(1 500)</u>		(1)
	551 500		
Inventory of finished goods at 31 July 2012	<u>(55 000)</u>		
Cost of sales		<u>(496 500)</u>	(1 of)
Gross profit		183 500	
Less			
Rent and rates	5 500		(1)
Office wages and salaries (69 500 – 8 000)	61 500		(1)
Marketing expenses (27 850 – 1 350)	26 500		(1)
Distribution costs	62 000		(1)
General office expenses	6 700		(1)
Loan interest (2 100 + 700)	2 800		(1)
Provision for depreciation on office equipment	4 000		(1)
Loss on disposal	500		(1)
Increase in provision for doubtful debts	<u>1 500</u>		(1)
		<u>(171 000)</u>	
Profit for the year		<u>12 500</u>	[13]

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(c)

Balance Sheet at 31 July 2012

	Cost \$	Accumulated depreciation \$	NBV \$	
<u>Non-current assets</u>				
Factory equipment	160 000	76 800	83 200	(1)
Office equipment	<u>40 000</u>	<u>30 000</u>	<u>10 000</u>	(1)
	<u>200 000</u>	<u>106 800</u>	93 200	
<u>Current assets</u>				
Inventory:				
Raw materials	29 000			
Work in progress	40 000			
Finished goods	<u>55 000</u>			
		124 000		(1)
Trade receivables	75 000			
Less: provision for doubtful debts	<u>4 500</u>			
		70 500		(2)
Other receivables (Prepaid marketing)		1 350		(1)
Bank		<u>9 700</u>		
		<u>205 550</u>		
Less: <u>current liabilities</u>				
Trade payables	53 550			(1)
Other payables				
accrued expenses (6 500 + 700)	<u>7 200</u>			(2)
		<u>(60 750)</u>		
Net current assets			<u>144 800</u>	
			238 000	
<u>Non current liabilities</u>				
8% loan repayable 31 December 2025			<u>(35 000)</u>	(1)
			<u>203 000</u>	
Capital		200 000		
Add: Profit for the year		<u>12 500</u>		
		212 500		
Less: Drawings (8 000 + 1 500)		<u>(9 500)</u>		(2)
			<u>203 000</u>	(1 of)

[13]