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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Ordinary Level

MARK SCHEME for the June 2004 question papers

7110 PRINCIPLES OF ACCOUNTS

7110/01	**Paper 1, maximum raw mark 40**
7110/02	**Paper 2, maximum raw mark 100**

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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June 2004

GCE ORDINARY LEVEL

MARKING SCHEME

MAXIMUM MARK: 40

SYLLABUS/COMPONENT: 7110/01

PRINCIPLES OF ACCOUNTS
Paper 1

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Question Number		*Question Number*	*Key*
1	**A**	21	**A**
2	**B**	22	**D**
3	**B**	23	**B**
4	**B**	24	**A**
5	**B**	25	**C**
6	**B**	26	**B**
7	**C**	27	**B**
8	**D**	28	**D**
9	**B**	29	**B**
10	**D**	30	**D**
11	**D**	31	**B**
12	**A**	32	**B**
13	**C**	33	**D**
14	**D**	34	**A**
15	**C**	35	**B**
16	**B**	36	**D**
17	**A**	37	**C**
18	**C**	38	**C**
19	**B**	39	**A**
20	**B**	40	**D**

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June 2004

GCE ORDINARY LEVEL

MARKING SCHEME

MAXIMUM MARK: 100

SYLLABUS/COMPONENT: 7110/02

PRINCIPLES OF ACCOUNTS
Paper 2

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1. (a) Goodwill paid by Tyle

	$	
Paid	25 000 (1)	
Net assets/capital	20 000 (1)	
Goodwill	5 000 (1)	[3]

(b) Business purchase account

Dr	$		$	Cr
		Goodwill	5 000 (1 of)	
Creditors	1 900 (1)	Equipment	9 300 (1)	
		Stock	4 100 (1)	
		Debtors	5 300 (1)	
Saxon	25 000 (1)	Bank	3 200 (1)	
	26 900		26 900	[7]

Total marks [10]

2. (a) (i) Fixed Assets

Valued at cost (1) less accumulated (1) depreciation (1) [3]

(ii) Stock

Valued at cost (1) or net realisable value / (market value) (1), whichever is lower (1) [3]

(iii) Trade debtors

Valued at expected collectible amounts (2)

or

Total debtors balances (1) less provisions for discounts and doubtful debts (1) [2]

(b) (i) The working capital

Current assets $24 200 (1) — Current liabilities $12 100 (1) = $12 100 (1) [3]

(ii) Net profit as a percentage of capital

$$\frac{\$9\,500\ (1)}{\$20\,000\ (1)} \times 100 = 47.5\%\ (1)$$ [3]

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(c)

Item	Effect on working capital $	Effect on net profit $
(ii) Obsolete closing stock, $400 is to be written off	Decrease 400 (1)	Decrease 400 (1)
(iii) A provision for doubtful debts, $100 is to be created	Decrease 100 (1)	Decrease 100 (1)
(iv) The depreciation charge is to be increased by $200	No effect (1)	Decrease 200 (1)
(v) A fixed asset is to be sold at its net book value, $1000	Increase 1000 (1)	No effect (1)

[8]
Total marks [22]

3. (a) (i) Debit column total $359 000 (1)

(ii) Suspense account balance $47 600 (1)

(iii) Credit column total $359 000 (I) [3]

(b) Suspense account

Dr	$			$	Cr
Profit and Loss Account	47 000	(1)	Balance	47 600	(1 of)
Provision for doubtful debts	1 200	(1)	Debtors	600	(1)
	48 200			48 200	[4]

(c) The uses of the trial balance.

A check on the arithmetical (1) accuracy (1) of double entry (1)
Basis on which to prepare final accounts (1) [max 3]

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(d) **Five** errors not affecting the Trial Balance.

Error of omission (1)
Error of commission (1)
Error of principle (I)
Compensating error (1)
Error of original entry (1)
Reversal errors (1)

Any 5 x 1 mark [5]
Note: Accept examples

Total marks [15]

4. (a) (i) Diminishing (reducing) balance

The same percentage/proportion (1) of the net book value (1) is charged annually as depreciation. [2]

(ii) Straight-line

The same percentage/proportion (1) of cost less estimated residual value (1) is charged annually as depreciation. [2]

(iii) Revaluation

Depreciation is calculated as value at start of year
plus
cost of items purchased during the accounting period (1)
less
Valuation of fixed assets at end of the accounting period (1) [2]

(b) (i) Diminishing (reducing) balance

Year 1 depreciation — 60% x $2000 = $1200 (1)
Year 2 depreciation — 60 % x ($2000 — $1200) = $480 (1) [2]

(ii) Straight-line

Year 1 depreciation — 10% x $3000 = $300 (1)
Year 2 depreciation — 10 % x $3000 = $300 (1) [2]

(iii) Revaluation

Year 1 — $800 — $600 = $200 (1)
Year 2 — $600 — $350 = $250 (1) [2]

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(c) Computers are subject to rapid technological change (1) which must be reflected in the depreciation policy (1). The diminishing (reducing) balance method involves a high proportion of depreciation in early years (1)

Any 2 x 1 marks

Office furniture is used consistently over a long period (1) and this should be reflected in the depreciation policy (1). The straight-line method involves a consistent amount of depreciation being charged annually (1).

Any 2 x 1 marks

Loose tools are low cost fixed assets and tend to be numerous in any organisation (1). It is a simpler procedure to revalue loose tools than employ either of the other two methods of depreciation (1). Because of the value of these assets, the difference from more formal depreciation methods is not material (1) and is cost-effective for these assets (1).

Any 2 x 1 marks [6]

Total marks [18]

5. (a)

Sue Lim and Vanessa Jackson
Profit and Loss Account and Appropriation Account
for the year ended 31 December 2003

	$		$
Rent [26 000 (1) – 2 000 (1)]	24 000	Fees/Income	125 300 (1)
Staff salaries [18 600 (1) + 790 (1)]	19 390		
Sundry expenses	34 400 (1)		
Bad debts	1 600 (1)		
Increase in provision for doubtful debts			
[(5% x 18 300) (1) – 330 (1)]	585		
Provision for depreciation:			
office equipment [50% x 14 000 (1)]	7 000 (1)		
Net profit c/d	38 325 (1 of)		
	125 300		125 300
Partnership salary – Vanessa Jackson	6 000 (1)	Net profit b/d	38 325
Share of profit:			
Sue Lim [$^3/_5$ x 32 325]	19 395 (2)		
Vanessa Jackson [$^2/_5$ x 32 325]	12 930 (2)		
	38 325		38 325

Accept any recognisable layout [17]

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(b) Balance Sheet as at 31 December 2003 (1)

Fixed Assets	Cost	Depr'n	NBV		Sue Lim	Vanessa Jackson	
	$	$	$		$	$	$
Office equipment	28 000	21 000 (1 of)	7 000 (1 of)	Capital Accounts	20 000 (1)	10 000 (1)	30 000
Current Assets				Current Accounts			
Debtors	18 300			Balance as at 1 January 2003	5 600	3 720	
Less: provision				Partnership salary	–	6 000 (1)	
for doubtful debts	915 (1 of)	17 385 (1 of)		Share of profits	19 395 (1 of)	12 930 (1 of)	
Bank		90 (1)			24 995	22 650	
Prepaid rent		2 000 (1)		*Less*: drawings	28 720 (1)	24 140 (1)	
			19 475	Balance as at 31 December	(3 725) (1 of)	(1 490) (1 of)	(5 215)
							24 785
				Current Liabilities			
				Creditors		900 (1)	
				Accrued staff salaries		790 (1)	1 690
			26 475				26 475

Accept any recognisable layout [18]

Total marks [35]