UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2009 question paper

for the guidance of teachers

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

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.

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1 (a) Trade discount

(b) (i) Credit note **(1)**

(ii) (Sales) invoice
(Not Purchases Invoice) (1) [2]

(c)

Sales account

		$			$	
30 Sep	Trading (account)	16 100	15 Sep	Balance b/d	14 950	
		(1of)	16 Sep	Khan Ltd	400	**(1)**
			25 Sep	Eastern Retailer	250	**(1)**
			26 Sep	Cash	500	**(1)**
		16 100			16 100	[4]

Stock account

		$			$	
1 Oct	Balance b/d	1 800	30 Sep	Trading account	1 800	**(1)**
30 Sep	Trading account	1 470 **(1)**	30 Sep	Balance c/d	1 470	
		3 270			3 270	
1 Oct	Balance b/d	1 470 **(1)**				[3]

Eastern Retailers account

		$			$	
15 Sep	Balance b/d	1 200	18 Sep	Bank	1 140	**(1)**
25 Sep	Sales	250 **(1)**	18 Sep	Discount (allowed)	60	**(1)**
			30 Sep	Balance c/d	250	
		1 450			1 450	
1 Oct	Balance b/d	250 **(1of)**				[4]

Khan account

		$			$	
15 Sep	Balance b/d	2 150	24 Sep	Returns inward	40	**(1)**
16 Sep	Sales	400 **(1)**	27 Sep	Bad debts	2 510	**(1of)**
		2 550			2 550	[3]

Marks for narrative and figure
Ignore dates

[Total: 17]

2 (a) Depreciation is the loss in the value of a <u>**fixed**</u> asset (2/0)
Depreciation spreads the cost of a <u>**fixed**</u> asset over its useful life (2/0)

(b) Use/deterioration
Wear and tear
Obsolescence
Time factor/age/old
Depletion
1 mark per cause × 2 [2]

(c)

	Dr $	Cr $
Disposal account	8 000 **(1)**	
Machinery account		8 000 **(1)**
Provision for depreciation account	1200 **(1)**	
Disposal account		1200 **(1)**
Bank/Cash account	7 000 **(1)**	
Disposal account		7 000 **(1)**
Disposal account (either Dr/Cr)	200 **(1of)**	
Profit and loss account (either Dr/Cr)		200 **(1of)**

(Any transfer to either P&L or disposal =1 mark each. No need to check figures) [8]

(d) Matching the cost of a fixed asset (or, by example) to the income earned in a given financial year (2/0)
Spreading the cost of a fixed asset over the financial years of its use
Charging a part of the cost of a fixed asset to the profit & loss accounts over its useful life
The expense of using a fixed asset during a financial year
(Accept other appropriate comments) [2]

(e)   **Fixed asset**   **Method and reason**

  (i) Buildings   Straight line **(1)**
                  Asset depreciates evenly over its life **(1)**

  (ii) Computers   Reducing/diminishing balance **(1)**
                  Large loss in value of asset in early years **(1)**
                  Technical improvements make computers rapidly out of date

  (iii) Loose tools   Revaluation **(1)**
                  Small items value varies each year and is difficult to measure. **(1)**

Method must be correct. Method wrong ignore reason.
(Accept other appropriate comments) [6]

(f)

	$	
Single time 160hrs × $6 =	960	**(1)**
Time and a half 10hrs × $9 =	90	**(1)**
	1050	
Less tax and social security	150	**(1)**
Wages paid in cash	900	**(1of no aliens i.e. employers ss)** [4]

(g)

	$	
Employers tax and social security =	105	**(1of)**
Employee tax and social security =	150	**(1of from f above)**
Total tax and social security	255	**(1of)**

[Total: 27]

3 (a) Similarities

Interest/dividend is fixed (both receive a fixed rate of return) (2–0)
Both do not have the right to vote at meetings
Both paid before Ordinary Shareholders
Both form part of the capital of the company
Both paid before Ordinary Shareholders upon liquidation
2 marks for one similarity

Differences

Preference shareholders are owners, debentures are loans (lenders/creditors) (2–0)
Shares receive a dividend, debentures receive interest
Debenture will be repaid in the future, preference shares are fixed capital
Debenture interest must be paid before preference share dividend
2 marks for one difference   [4]

(b) Profit and Loss Appropriation account for the year ended 31 August 2009

	$	$	
Net profit (60 000 – 4 000)		56 000	**(2–0)**
(Type of Share not identified – 0 marks)			
Preference dividend			
- interim	5 000 **(1)**	(10 000 = 1)	
- final	5 000 **(1)**		
Ordinary dividend			
- interim	5 000 **(1)**		
- final	10 000 **(1)**	(15 000 = 1)	
Transfer to General Reserve	20 000 **(1)**		
		45 000	
Retained profit for the year		11 000	
Balance of Profit and Loss b/fwd		25 000	**(1)** (can be added to net profit)
Undistributed Profit and Loss c/fwd		36 000	**(1of)**
Alternative presentation accepted			[9]

(c) A general reserve is retained profit for a non specific purpose (2–0)
Used to fund the general growth of the business and its assets
Can be used to cover future shareholders dividend
To conserve cash and working capital   [4]
2 marks per point × 2 points

(d)

	$	
Ordinary shares - interim dividend	150	**(1)**
- final dividend	300	**(1)**
Debenture interest	100	**(1)**
Total income for Elodie	550	**(1of no aliens)** [4]

[Total: 21]

4 (a)

(i) Gross profit to sales percentage   **(1)** $\underline{45\,000 \times 100}$ 37.5% **(1)**
                                             (1) 120 000

(ii) Rate of stock turnover   **(1)** $\underline{75\,000}$ 3.75 times **(1)**
                                             (1) 20 000   3.2 months / 97 or 98 days   [3]

(iii) Net profit to capital percentage   **(1)** $\underline{30\,000 \times 100}$ 20% **(1)**   [3]
                                                 (1) 150 000

(iv) Working capital (current ratio) $\underline{28\,000 + 30\,000}$ **(1)** 1:1 **(1)**   [3]
                                           43 000 + 15 000   **(1)**

(b) Comments can relate to **own figures.**
Comparison between Easisell/Competitor
Where Jamal is treated as the similar business – no marks

 (i) Controlling stock
Easisell has a lower/worse turnover rate than his competitor **(2)**
Their stock has more than doubled in the year/stock is moving slowly **(2)**   [4]

 (ii) Net profit to capital percentage
Gross Profit to Sales %
    Easisell has a lower gross profit to sales % than their competitor **(2)**
    Easisell has a lower selling price per unit or higher cost price per unit **(2)**
Net Profit to Capital
    Easisell's return on capital is significantly higher than their competitor **(2)**
    A greater net profit has been earned in relation to capital invested **(2)**
    Easisell has a better control of expenses/is more efficient **(2)**   [4 max]

(iii) Ability to pay creditors
Easisell has a lower/worse working capital ratio than their competitor **(2)**
Current ratio is approximately half that of the competitor **(2)**
The business has a bank overdraft and therefore may have difficulty in paying creditors **(2)**
There is a risk that creditors will refuse to supply goods because they are not paid on a timely basis **(2)**
Current assets can cover current liabilities but Easisell may have difficulty in paying creditors **(2)**   [4 max]

                                                               [Total: 24]

5 (a)

Paul and Judi
Trading and Profit and Loss Account for the year ended 30 September 2009

	$	$	
Sales		210 000	
less Returns In		4 500	
		205 500	**(1)**
Opening stock	12 650		
Plus Purchases	139 750 **(1)**		
Less Drawings	4 000 **(1)**		
	148 400		
Closing stock	15 400 **(1)**		
Cost of sales		133 000	**(1) correct and labelled not COGS**
Gross profit		72 500	**(1of) labelled not GP**
Rent receivable		8 000	**(1)**
		80 500	
Staff wages	18 000 **(1)**		
General expenses	9 650 **(1)**		
Advertising	7 150 **(1)**		
Rent	17 500 **(1)**		
Depreciation	3 400 **(2) (3000 – 1 mark + 400 – 1 mark)**		
Increase in PDD	250 **(1)**		
		55 950	
Net profit		24 550	**(1of No Aliens, not NP)**
Interest on capital:			
Paul	1 200 **(1)**		
Judi	800 **(1)**		
	2 000		
Share of profit:			
Paul (3/5)	13 530 **(1of) If no aliens in appropriation account**		
Judi (2/5)	9 020 **(1of)**		
	24 550		**[19]**

(b)

Balance Sheet as at 30 September 2009

	$	$	$

Fixed assets

	Cost	Deprec	Net Book Value
Fixtures	24 000 –	16 000	8 000 **(1of) (If Depn is > 12600 = 1of NBV)**

Current assets

Stock		15 400
Debtors	16 000	
Less PDD	800 **(1)**	
		15 200 **(1of)**
Prepaid		2 850 **(1)**
Rent receivable		2 000 **(1)**
Bank		16 650 **(1)**
		52 100

less

Current liabilities

Creditors	8 900 **(1)**
Working capital	43 200
	51 200

Financed by:

Capital:	Paul	Judi	
	30 000	20 000 **(1)**	50 000 **(50000 only = 0 marks)**

Current accounts:

	Paul	Judi	
Opening bal	2 300 Cr	650 Dr	
Interest on cap	1 200	800 **(1of)**	
Share of profit	13 530	9 020 **(1of)**	
	17 030	9 170	
Drawings	15 000	10 000 **(1)**	
	2 030 Cr	830 Dr	1 200 **(1of)**

(1of for both in Balance Sheet) 51 200

Current Accounts

	Paul	Judy		Paul	Judy	
Bal		650	Bal	2300		
Drawings	15000	10000 **(1)**	Interest	1200	800	**(1of)**
			Profits	13530	9020	**(1of)**
Balance	2030		Balance		830	
	17030	10650		17030	10650	
Balance		830	Balance	2030		

Alternative presentation accepted   [12]

[Total: 31]