UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

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

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)** **(i)** Running balance format **(1)**

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

(b)

Insurance account

		$				$	
1/9/2010	Balance b/d	280		30/9/2010	Income statement **(1)** (profit and loss)	310	**(1)**
1/9/2010	Bank **(1)**	360	**(1)**	30/9/2010	Balance c/d	330	
		640				640	
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	
		1810				1810	
1/10/2010	Balance b/d	1360	**(1)of**				

[10]

(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]

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]

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	3 000	**(1)**				
				8 000			
	Ordinary proposed			20 000	**(1)**		
						53 000	
Retained profit for the year						12 000	**(1)**
Add retained profit brought forward						75 000	
Retained profit carried forward						87 000	**(1)**

Allow acceptable alternative formats. [6]

(b)

Harland Ltd
Extract from Balance Sheet at 31 October 2010

	$ Authorised		$ Issued	
Share Capital				
4% Cumulative preference shares of $1 each	250 000		200 000	
Ordinary shares of $1 each	500 000		400 000	
	750 000	**(1)**	600 000	**(1)**
Reserves				
General reserve	135 000	**(1)**		
Profit and loss account (retained profits)	87 000	**(1of)**	222 000	
Shareholders' funds			822 000	**(1)**

Allow acceptable alternative formats. [5]

(c)

	$	
Shareholders funds	822 000	
6% Debentures	100 000	
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	Not owners of the business
No guarantee of dividend	Guaranteed interest
No set dividend rate	Set interest rate
No date for repayment	Set date for repayment

One point × **(2)** [2]

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

(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]

5 (a)

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

	$		$		$	
Revenue (sales)					155 000	**(1)**
Less Sales returns					9 500	**(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	1 250	**(1)**				
	68 750					
Carriage inwards	3 000	**(1)**				
			71 750			
			83 250			
Less Inventory (closing stock)			14 600	**(1)**		
					68 650	
Gross profit					76 850	**(1)**
Add Other income						
Discount received					5 600	**(1)**
Decrease in Provision for Doubtful Debts					250	**(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			250	**(2)**		
					68 800	
Profit for the year(net profit)					13 900	[22]

Calculation of Provision for Doubtful debts
$23 000 – $4 250 = $18 750 × 4% = $750 less $1 000 = $250 decrease

(b) Balance Sheet at 30 September 2010

	$		$		$	
Non-current (fixed) assets	**Cost**		**Depreciation to date**		**Book value**	
Motor vehicles	42 000		16 500		25 500	**(1)**
Office equipment	26 000		6 600		19 400	**(1)**
	68 000		23 100		44 900	**(1)**
Current assets						
Inventory (stock)			14 600	**(1)**		
Trade receivables (debtors)	18 750					
Less Provision for doubtful debts	750					
			18 000	**(2)**		
Other receivables (prepayments)			300	**(1)**		
			32 900			
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	16 000	**(1)**				
			47 150			
Net current assets					(14 250)	**(1)**
					30 650	
Financed by						
Equity (capital)						
Opening balance (40 000 – 10 000)					30 000	**(2)**
Plus Profit for the year (net profit)					13 900	**(1)**
					43 900	
Less Drawings (12 000 + 1 250)					13 250	**(2)**
					30 650	

[18]

[Total: 40]