UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

7110 PRINCIPLES OF ACCOUNTS

7110/21 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 must be read in conjunction with the question papers and the report on the examination.

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1 **(a)** **(i)** $80 000 **(1)**

(ii) $130 000 **(1)**

(b)

Transaction	Book of original entry	Debit entry	Credit entry	Effect on capital $
(i)	Purchases Journal	Purchases	Henry	Nil
(ii)	Sales journal **(1)**	Mary **(1)**	Sales **(1)**	+200 **(1)**
(iii)	Cash Book **(1)**	Henry **(1)**	Bank Discount **(1)** for both	+10 **(1)**
(iv)	Sales returns journal **(1)**	Sales returns **(1)**	Mary **(1)**	-20 **(1)**

[12]

(c) **(ii)** The invoice is a demand for payment from Mary. **(2/0)**

(iii) A cheque will be raised to pay Henry and the counterfoil will be completed as a record of the payment. **(2/0)**

(iv) The credit note will acknowledge the return of goods by Mary. Her account will be credited in Joe's books. **(2/0)**

[6]

[Total: 20]

2 **(a)** Identify and locate errors
Prevent fraud with separation of duties
Speedy calculation of summarised trade payables and trade receivables
(1) per point × 2 [2]

(b)

Sales Ledger Control Account

2011	$		2011	$	
Balance b/d	64 350	**(1)**	Bank	136 800	**(1)**
Sales	153 400	**(1)**	Discount allowed	5 250	**(1)**
			Bad debts	7 900	**(1)**
			Returns inwards	8 100	**(1)**
			Balance c/d	59 700	**(1)**
	217 750			217 750	
May 1 Balance b/d	59 700	**(1of)**			

[8]

(c) **(i)**

Journal

	Dr $	Cr $		
1. D.Holme	485			**(1)**
D. Hume			485	**(1)**
2. Office equipment	550			**(1)**
Purchases		550		**(1)**

(ii) 2 × 1 mark for reference to relevant accounting concepts **(2)** [6]

(d)

	$	
35 hours × $7 =	245	**(1)**
10 hours × $10.5 =	105	**(1)**
	350	
Employers' tax	35	**(1)**
Total cost	385	**(1)**

[4]

[Total: 20]

3 **(a)** Salaries
Rate of interest on capital
Rate of interest on drawings
Arrangements for loans
Arrangements for introduction/retirement of partners
(1) per point × 2 [2]

(b)

Choong and Tan
Appropriation Account for the year ended 30 April 2011.

	$		$	
Profit for the year			32 000	
Less				
Interest on capital:				
Choong	4 000	**(1)**		
Tan	2 500	**(1)**		
			6 500	
			25 500	
Salary: Tan			9 000	**(1)**
			16 500	
Share of profit:				
Choong	11 000	**(1)**		
Tan	5 500	**(1)**		
			16 500	

[5]

(c)

Current Accounts

		Choong	Tan				Choong	Tan	
2010		$	$		2010		$	$	
May 1	Balance b/d		1 500		May 1	Balance b/d	1 200		**(1)**
2011					2011				
Apl 30	Drawings	14 700	16 000	**(1)**	Apl 30	Int on cap	4 000	2 500	**(1of)**
						Salary		9 000	**(1of)**
						Share of profit	11 000	5 500	**(1of)**
	Balance c/d	1 500				Balance c/d		500	**(1)**
		16 200	17 500				16 200	17 500	
May 1	Balance c/d		500			Balance c/d	1 500 **(1of)**		

Alternative: allow separate accounts [7]

(d) Difficult to value
Against principle of money measurement
Intangible
Allow any acceptable alternatives.
(2) × one point [2]

(e)

Capital Accounts

2011	Choong $	Tan $		2011	Choong $	Tan $		
Goodwill	60 000	30 000	**(2)**	Balance b/d	80 000	50 000	**(1)**	
Balance b/d	20 000	20 000						
	80 000	80 000			80 000	50 000		
				Balance b/d	20 000	20 000	**(1of)**	[4]

[Total: 20]

4 **(a)** **(i)** $\frac{\text{Net profit}}{\text{Revenue}} \times 100 = \frac{44\,000}{220\,000} \times 100$ **(1)** **(1)** = 20% **(1)**

(ii) $\frac{\text{Net profit}}{\text{Capital}} \times 100 = \frac{44\,000}{160\,000} \times 100$ **(1)** **(1)** = 27.5% **(1)**

(iii) $\frac{\text{Current assets}}{\text{Liabilities due in less than one year}} = \frac{35\,000 + 40\,000 + 15\,000}{60\,000}$ **(1)** **(1)** = 1.5:1 **(1)**

(iv) $\frac{\text{Current assets - Inventory}}{\text{Liabilities due in less than one year}} = \frac{40\,000 + 15\,000}{60\,000}$ **(1)** **(1)** = 0.9:1 **(1)**

[12]

(b) Revenue is reduced by $40 000
Gross profit % appears to be reduced
Expenses have reduced, but not in proportion to the revenue.
(2) per point × 2 [4]

(c) Increased capital which could have been in cash
Possible reduced drawings
Reduced inventory
Improved collection of debts
Reduced expenses.
(2) per point × 2 [4]

[Total: 20]

5 (a)

Yip Sin

Manufacturing Account for the year ended 30 April 2011

	$	$		
Inventory of raw materials at 1 May 2010	20 900		**(1)**	
Purchases of raw materials	147 200		**(1)**	
	168 100			
Less: Inventory of raw materials at 30 April 2011	28 100		**(1)**	
Cost of raw materials consumed	140 000		**(1)**	
Direct factory wages (85 960 + 4040)	90 000		**(1)**	
Royalties	10 000		**(1)**	
Prime cost **(1)**		240 000	**(1)**	
Factory overheads:				
Indirect factory expenses	23 450		**(1)**	
Rent	24 000		**(1)**	
Factory management salaries	36 000		**(1)**	
Provision for depreciation of plant and machinery	10 000		**(1)**	
		93 450		
		333 450		
Add increase in work in progress (30 800 – 34250)		(3 450)	**(1)**	
Cost of production **(1)**		330 000		[14]

(b)

Income Statement for the year ended 30 April 2011

	$	$		
Revenue		450 000	**(1)**	
Inventory of finished goods at 1 May 2010	40 750			
Cost of production	330 000		**(1of)**	
	370 750			
Inventory of finished goods at 30 April 2011	42 350		**(1)**	
Cost of sales		328 400		
Gross profit		121 600		
Rent	6 000		**(1)**	
Office salaries	28 500		**(1)**	
Advertising (20 940 – 1 700)	19 240		**(1)**	
Distribution costs	18 650		**(1)**	
General office expenses (11 300 – 2 000)	9 300		**(2)**	
Loan interest (1 500 + 1 500)	3 000		**(1)**	
Provision for depreciation on office equipment	2 600		**(2)**	
Increase in provision for doubtful debts	800		**(1)**	
		88 090		
Profit for the year		33 510		[13]

(c) Balance sheet as at 30 April 2011

	Cost	Depreciation to date	NBV	
	$	$	$	
Non-current assets				
Plant and machinery	75 000	35 000	40 000	**(1)OF**
Office equipment	26 000	11 600	14 400	**(1)OF**
	101 000	46 600	54 400	
Current assets				
Inventory:				
Raw materials	28 100			
Work in progress	34 250			
Finished goods	42 350			
		104 700		**(1)**
Trade receivables	64 000			
Less: provision for doubtful debts	3 200			
		60 800		**(2)**
Other receivables		1 700		**(1)**
Bank		4 200		**(1)**
		171 400		
Less: Current liabilities				
Trade payables	61 750			**(1)**
Other payables (accrued expenses) (4040 + 1500)	5 540			**(2)**
		67 290		
Net current assets			104 110	
			158 510	
Non-current liabilities				
6% loan repayable 31 December 2020			50 000	**(1)**
			108 510	
Financed by:				
Capital		100 000		
Plus: Profit for the year		33 510		**(1)**
		133 510		
Less: Drawings		25 000		
			108 510	**(1of)**
				[13]

[Total: 40]