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

7110/22 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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 (a)

Three Column Cash Book (Bank columns only)

		$				$	
April 27	Sales	630	**(1)**	April 24	Balance b/d	150	**(1)**
April 28	Loula	1920	**(1)**	April 25	Drawings	200	**(1)**
				April 26	Kerai	388	**(1)**
				April 26	Susan	720	**(1)**
				April 29	Wages	430	**(1)**
				April 30	Balance c/d	662	**(1)**
		2550				2550	

[8]

(b)

May 1 Balance b/d	662		May 1	Balance b/d	686	
May 1 Dividend	24	**(1)**				
	686				686	
May 1 Balance b/d	686	**(1of)**				

[2]

(c)

Bank Reconciliation Statement at 1 May 2011

	$		
Balance as per Bank Statement	(804)	Dr	**(1)**
Add:			
Cheque banked – Loula	1920		**(2)**
	1116		
Less:			
Unpresented cheque-wages	(430)		**(2)**
Balance as per Cash Book **(1)**	686		**(1of)**

Accept alternative presentations i.e. starting with Cash book balance. [7]

(d)

	Ledger account	Book of prime entry	Both a ledger account and a book of prime entry
Stock	✓		
Purchase journal		✓ **(1)**	
Cash book			✓ **(1)**
Provision for depreciation	✓ **(1)**		

[3]

[Total: 20]

2 **(a)** To account for cost consumed / used during the financial year
To charge a share of the cost to the income statement for the year
Reduce the book value of non-current assets in the balance sheet
To spread the cost over its useful economic life
Wear & tear, passage of time, obsolescence & depletion (2 per point)
Comply with accounting principles and concepts, e.g. prudence, matching.
(2–0) × 2 points [max 4]

(b) Machinery will lose a high proportion of its value in the early years
Low maintenance costs in early years, higher in later years
Changes in technology may outdate the machinery
(2–0) × 2 points [2]

(c) Calculation of depreciation:

	Machinery		Office furniture		Loose tools		
	$		$		$		
Cost/value	80 000		15 000		1 050		
Additions	18 000		-		630		
	-		(1 000)		-		
	98 000		14 000		1 680		
Accum Prov	60 000		4 800				
	38 000		9 200				
Depreciation 25%	9 500	**(2–0)**	1 400	**(2–0)**	280	**(2–0)**	
Net book value	28 500		7 800		1 400		[6]

(d)

	$		
Cost	1 000		
Depreciation	200	**(1)**	
	800		
Sale price	550	**(1)**	
Loss on sale	250	**(1of)**	[3]

(e) Non-current assets

	Cost	Accumulated Depreciation	Net book value		
	$	$	$		
Machinery	98 000	69 500 (>60k)	28 500	**(1of)**	
Office furniture	14 000	6 200 (>5k)	7 800	**(1of)**	[2]

(f)

	Capital expenditure	Revenue expenditure
Purchase of spares for machinery		✓ **(1)**
Installation of additional machinery	✓ **(1)**	
Repairs to office equipment		✓ **(1)**
Purchase of additional loose tools	✓ **(1)**	

[4]

[Total: 21]

3 (a)

	$			$		
Bank received	60 500		Bank payments	34 900		
Trade receivables 30 April	8 400		Trade payables 30 April	9 300		
	68 900			44 200		
Trade receivables 1 May	9 750		Trade payables 1 May	10 500		
Sales	59 150	**(3)**	**Purchases**	33 700	**(3)**	[6]

(b)

Tanvir
Income Statement for the year ended 30 April 2011

	$		$		
Revenue (sales)			59 150	**(1of)**	
Less Cost of sales					
Opening inventory	5 250				
Add purchases	33 700	**(1of)**			
	38 950				
Less closing inventory	(11 000)				
Cost of sales			(27 950)		
Gross profit			31 200	**(1of)**	
Less					
Wages	15 000				
Light & heat	3 350	**(1)**			
General expenses	6 000				
Loan interest	1 200	**(1)**			
Loss on sale	250	**(1)**			
Depreciation	5 000	**(2)**			
			(30 800)		
Profit for the year			400	**(1of)**	[9]

(c)

Balance Sheet at 30 April 2011

	$		$		
Non-current assets			42 000		
Current assets					
Inventory	11 000				
Trade receivables	8 400	(1)			
	19 400				
Current Liabilities					
Trade payables	9 300				
Accruals	1 450	(1)			
Bank overdraft	10 250				
	21 000				
Net Current Assets			(1 600)		
			40 400		
Long term liabilities					
6% Bank loan			(20 000)	(1)	
			20 400		
Capital 1 May 2010			25 000		
Add Profit for the year			400	(1of)	
			25 400		
Less Drawings			(5 000)	(1)	
			20400		[5]

[Total: 20]

4 (a) (i)

	$		
Opening inventory	5 500		
Purchases	72 000		
	77 500		
Closing inventory	7 500		
Cost of sales	70 000	**(1)**	
Gross profit (50%)	35 000	**(1)**	
Revenue	105 000	**(1 of)**	[3]

(ii) $\frac{\text{Cost of sales}}{\text{Average inventory}} = \frac{\$70\,000}{\$6\,500}$ **(1of)** **(1)** = 10.8 times **(1 of)** (Need 'times') [3]

(iii)

	$		
Gross profit	35 000		
Operating expenses	23 500		
Net profit	11 500	**(2 or 1of)** (if use own gross profit in **(a)(i)**)	[2]

(iv) $\frac{\text{Net profit}}{\text{Revenue}} \times 100 = \frac{11\,500\ \textbf{(1of)}}{105\,000\ \textbf{(1of)}} \times 100$ = 11% **(1 of)** (accept 10.9%. need % label) [3]

(v) $\frac{\text{Net profit}}{\text{Capital}} \times 100 = \frac{11\,500\ \textbf{(1of)}}{75\,000\ \textbf{(1)}} \times 100$ = 15.3% **(1of)** [3]

(b) The seller will make a **small mark up** (or **low selling price**) on each item **(1)** will have a **high volume** of sales **(1)**.

(c)

	Increase rate of inventory turnover	Decrease rate of inventory turnover
(i) Hold a 'Sale' and reduce prices by 20%.	✓ **(1)**	
(ii) Increase the inventory by $20 000.		✓ **(1)**
(iii) Raise selling prices by 10%.		✓ **(1)**

[3]

[Total: 19]

5 Fu, Li and Yang

Income Statement and Appropriation Account for the year ended 30 April 2011 **(1)**

	$		$	
Revenue			209 500	
Opening inventory	30 650			
Add Purchases	111 200			
Less returns	(4 750)	**(1)**		
	137 100			
Closing inventory	28 100	**(1)**		
Cost of sales			109 000	**(1)**
Gross profit			100 500	**(1of)**
Discount received			5 300	**(1)**
			105 800	
Rent (7500 + 2500)	10 000	**(1)**		
Salaries & Wages	42 100			
Heat and light	3 890			
General expenses (16 750 – 4 200)	12 550	**(1)**		
Marketing	12 050			
Depreciation-				
Motor vehicles	2 560	**(2)**		
Fixtures	3 000	**(2)**		
Increase in PDD	750	**(2)**		
			86 900	
Profit for the year			18 900	**(1of)**
Interest on drawings:				
Fu	500	**(1)**		
Li	500	**(1)**		
Yang	600	**(1)**		
			1 600	
			20 500	
Interest on capital:				
Fu	1 600	**(1)**		
Li	1 400	**(1)**		
Yang	1 000	**(1)**		
			(4 000)	
			16 500	
Share of profit:				
Fu	6 600	**(1of)**		
Li	6 600	**(1 of)**		
Yang	3 300	**(1of)**		
			16 500	

[24]

(b)

Statement of Financial Position at 30 April 2011

	$	$	$	
Non-current assets				
	Cost	Accumulated Depreciation	Net Book Value	
Premises			44 750	
Motor vehicles	16 000	5 760	10 240	**(1of)**
Fixtures	30 000	20 500	9 500	**(1of)**
	46 000	26 260	64 490	**(1of)**
Current assets				
Inventory		28 100		
Trade receivables	45 000			
Less PDD	2 250		**(1of)** (<1500)	
		42 750	**(1of)** (providing PDD is deducted)	
Prepaid		4 200	**(1)**	
Bank		7 560		
		82 610		
less				
Liabilities due in less than one year				
Trade payables	54 700			
Other payables	2 500 **(1)**			
	57 200			
Net current assets (accept working capital)			25 410	**(1 of labelled)**
			89 900	

Financed by:

	Fu		Li		Yang			Total
	$		$		$			$
Capital:	40 000		35 000		15 000		**(1)**	90 000
Current:								
Opening balance	2 500	Cr	1 500	Cr	(1 000)	Dr	**(1)**	
Transfer of capital					10 000		**(1)**	
Interest on capital	1 600		1 400		1 000		**(1of)**	
Share of profit	6 600		6 600		3 300		**(1of)**	
	10 700		9 500		13 300			
Interest on drawings	500		500		600		**(1of)**	
Drawings	10 000		10 000		12 000		**(1)**	
	10 500		10 500		12 600			
Closing balances	200		(1 000)		700		**(1of)**	
								100 Dr
								89 900

[16]

Alternative presentation accepted

Current Accounts

	Fu	Li	Yang			Fu	Li	Yang	
	$	$	$			$	$	$	
Balance b/d			1 000	**(1)**	Balance b/d	2 500	1 500		
Int on Dra'gs	500	500	600	**(1 of)**	Capital transfer			10 000	**(1)**
Drawings	10 000	10 000	12 000	**(1)**	Int on cap	1 600	1 400	1 000	**(1 of)**
					Share of profit	6 600	6 600	3 300	**(1 of)**
Balance c/d	200		700	**(1 of)**	Balance c/d		1 000		
	10 700	10 500	14 300			10700	10 500	14 300	

[16]

[Total: 40]