UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2012 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)

Books of Yang
Win account

		$				$	
Mar 1	Balance b/d	3000	**(1)**	Mar 20	Sales returns	160	**(2)**
Mar 17	Sales	800	**(1)**	Mar 30	Bank	650	**(1)**
				Mar 30	Bad debt **(1)**	2990	**(1 of)**
		3800				3800	

[7]

(b) Credit note **(1)** [1]

(c) Journal **(1)** [1]

(d) **(i)** To check the arithmetical accuracy of the double entry.
To provide a basis for the preparation of financial statements.
It is 'prima facie' evidence of the balancing of the accounts. [2]

(ii)

Account	Debit/Credit
Provision for depreciation	Credit **(1)**
Inventory	Debit **(1)**
Bank (overdraft)	Credit **(1)**
Wages	Debit **(1)**

[4]

(e) Omission
Commission
Principle
Compensation
Original entry
Reversal
(1) × 3 points [3]

(f)

Journal

	Dr	Cr	
	$	$	
Wilbur	12000		(1)
Sales		12000	(1)

[2]

[Total: 20]

2 (a) Purchases ledger control account

		$				$	
Mar 31	Purchase returns	900	**(1)**	Mar 1	Balance b/f	15 300	**(1)**
Mar 31	Bank	82 450	**(1)**	Mar 31	Purchases	77 850	**(2) (1 of)**
Mar 31	Discount received	1 350	**(1)**	Mar 31	Refunds	700	**(1)**
Mar 31	Balance c/d	9 150	**(1)**				
		93 850				93 850	

[8]

(b) Check on the arithmetical accuracy of the ledgers
Provide information for financial statements
Financial statements can be prepared quickly
Helps to detect fraud
Helps to detect errors **(1)** × 2 points [2]

(c) **(i)**

140 hours × $6	=	$840	
6 hours × $9	=	$54	
		$894	**(1)**
Less tax		$160	**(1)**
Net pay		$734	**(1)**

[3]

(ii)

Payment to Hui	$894	**(of)**
On costs	$95	**(1)**
Cost of employing Hui	$989	**(1 of)**

[2]

(d) Journal

	Dr $		CR $	
Wages and salaries	989	**(1)**		
Bank			734	**(1)**
Tax authorities			255	**(2)**

[4]

[Total: 19]

3 (a)

Trinity Social Club
Trial Balance at 30 April 2012

	Dr	Cr
	$	$
Fixtures and fittings	1600	
Donations received		150
Subscriptions		1980
Rent	1400	
Sales of refreshments		2500
General expenses	780	
Purchases of refreshments	1150	
Bank overdraft		100
Accumulated fund		200
	4930	4930

(1) for every two correct answers in the trial balance + **(1)** for correct Accumulated fund [5]

(b) **(i)** Subscriptions account

		$				$	
Apr 30	Income and expenditure	2015	**(1)**	Apr 30	Bank	1980	**(1)**
Apr 30	Balance c/d (in advance)	25		Apr 30	Balance c/d (in arrears)	60	
		2040				2040	
May 1	Balance b/d (in arrears)	60	**(1)**	May 1	Balance b/d (in advance)	25	**(1)**

[4]

(ii) Refreshment Trading Account for the year ended 30 April 2012

	$	$	
Sales of refreshments		2500	
Less			
Purchases of refreshments (1150 + 75)	1225		**(1)**
Less Inventory of refreshments	430		
Cost of sales		795	**(1)**
Profit on refreshments		1705	**(1 of)**

[3]

(c) Income and Expenditure Account for the year ended 30 April 2012

	$	$	
Income			
Subscriptions		2015	**(1 of)**
Profit on refreshments		1705	
Donations		150	
		3870	**(1 of)**
Less expenditure			
Rent	1400		
General expenses (780 +170)	950		**(1)**
Depreciation on fixtures and fittings	240		**(1)**
		2590	
Surplus		1280	**(1 of)**

[5]

(d)

Receipts and payments	**Income and expenditure**
Has a balance of the account brought down from the previous year	Calculates a surplus or deficit
Entries recorded throughout the year	Entries made at end of the year
Non-current assets recorded at cost	Depreciation on non-current assets only
Cash payments recorded	Cash payments adjusted for prepaid/accrued

(2) × 2 points [4]

[Total: 21]

4 (a) (i)

Cost of sales $\$120\,000 \times \frac{100}{125} = 96\,000$ **(3)** [3]

(ii)

	$	
Opening inventory	22 500	
Purchases	100 000	**(2 + 1of)**
122 500		
Closing inventory	26 500	
Cost of sales	96 000	**(of)**

[3]

(iii) Expenses $120 000 x (20% – 8%) = $14 400 **(3)** [3]

(b) Inventory turnover $\frac{96\,000\ \textbf{(of)}}{(22\,500 + 26\,500)/2\ \textbf{(2)}}$ = 3.92 times **(1 of)** [3]

(c) Reduce inventory levels
Reduce mark up to be more competitive
Promotions such as advertise products
Offer cash discounts to encourage sales
(1) × 2 points [2]

(d) Revised profit $9 600 **(1)** + ($30 000 – $26 500) **(1)** = $13 100 **(1)** [3]

(e) Deterioration of inventory
Obsolescence
Space required for storage
Cost of storage
Risk of theft
(**1**) × 3 points [3]

[Total: 20]

5 (a)

Thien
Income Statement for the year ended 31 March 2012

	$	$	
Revenue		78 580	
Inventory 1 April 2011	4 690		
Purchases	18 240		
	22 930		
Drawings	(450)		**(1)**
Returns	(1 600)		**(1)**
	20 880		
Inventory 31 March 2012	(3 870)		**(1)**
Cost of sales		(17 010)	**(1 of)**
Gross profit		61 570	
Plus			
Discount received		330	**(1)**
Decrease in Provision for doubtful debts		160	**(1)**
		62 060	
Less			
Loan interest	500		**(1)**
Equipment repairs	850		**(1)**
Equipment running expenses (2 650 + 750)	3 400		**(2)**
General running expenses	8 400		**(1)**
Wages	15 300		**(1)**
Insurance (3 640 – 1 350)	2 290		**(2)**
Power and water	2 300		**(1)**
Advertising costs	5 100		**(1)**
Discount allowed	1 650		**(1)**
Depreciation:			
Lease	2 000		**(1)**
Equipment	9 400		**(2)**
		(51 190)	
Profit for the year		10 870	

[20]

5 (b) Balance sheet at 31 March 2012

	Cost		Accumulated depreciation		NBV	
Non current assets	$		$		$	
Leasehold	50 000	(1)	12 000	(1)	38 000	(1)
Equipment	64 000	(1)	26 400	(1)	37 600	(1)
	114 000		46 000		75 600	
Current assets						
Inventory			3 870			(1)
Trade receivables	6 750					
Provision for doubtful debts	540					
			6 210			(2)
Other receivables			1 350			(1)
Bank (5 150 – 5 000)			150			(2)
			11 580			
Current liabilities						
Trade payables (4 010 + 5 000)			9 010			(2)
Other payables (750 + 500)			1 250			(2)
			10 260			
Net current assets					1 320	(1 of)
					76 920	
Non current liabilities						
6% Bank loan					(25 000)	(1)
					51 920	
Financed by:						
Capital at 1 April 2011					50 000	
Profit for the year					10 870	
					60 870	
Drawings (8 500 + 450)					(8 950)	(2)
					51 920	[20]

[Total: 40]