CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2013 series

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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CAMBRIDGE
International Examinations

1 (a)

Rent Payable account

2012		$	2012		$
Jan 1	Bank	3000}	Dec 31	Income statement **(1)**	12000 **(1)**
Apr 1	Bank	3000}			
Jul 1	Bank	3000} **(1)**			
Dec 31	Balance c/d	3000 **(1)**			
		12000			12000
			2013		
			Jan 1	Balance b/d	3000 **(1)** of

[5]

(b) Rent Payable account:

Mary owes her landlord rent of $3000 **(2)**
Mary has other payables of $3000 **(2)**
Mary has a creditor / accrual for rent of $3000 **(2)**

Max 2 [2]

(c)

Rent Received account

2012		$	2012	$
Dec 31	Income stat **(1)**	2250**(1)**	Aug 1 Bank	1350}
Dec 31	Balance c/d	450 **(1)**	Nov 1 Bank	1350}**(1)**
		2700		2700
			2013	
			Jan 1 Balance b/d	450 **(1)** of

[5]

(d) Rent Received account:

Mary has received one months rent, $450, in advance **(2)**
Mary has other payables of $450 **(2)**
Paul has prepaid one month's rent of $450 **(2)**

Max 2 [2]

(e) Non-current asset **(1)** [1]

(f) Capital expenditure:
Expenditure incurred on the purchase, alteration or improvement of non-current assets **(2)**

Revenue expenditure:
Expenditure incurred on the day-to-day running expenses of the business **(2)**

[4]

(g)

	Transaction	Capital expenditure	Revenue expenditure
(i)	Purchase of fixtures and fittings	√ **(1)**	
(ii)	Installing and testing an air conditioning system	√ **(1)**	
(iii)	Insurance of shop premises		√ **(1)**

[3]

[Total: 22]

2 **(a)**

Transaction	Source document	Accounts to be debited	Accounts to be credited	Effect on profit for year
(i)	Cheque counterfoil **GIVEN**	Insurance \$470 **GIVEN**	Bank \$470 **GIVEN**	–\$470 **GIVEN**
(ii)	Sales invoice **(1)**	J Dins \$11 520 **(1)**	Sales \$11 520 **(1)**	+\$5120 **(1)**
(iii)	Cheque counterfoil **(1)**	P Lee \$1 800 **(1)**	Bank \$1 728 Discount received \$72 **(1)**	+\$72 **(1)**
(iv)	Credit note **(1)**	R & R Ltd \$590 **(1)**	Purchases returns \$590 **(1)**	Nil **(1)**

[12]

(b) To encourage early payment **(2)** [2]

(c) Gross profit to sales ratio:

$\frac{\text{Gross profit x 100}}{\text{Revenue (sales)}} = \frac{\$12\ 000}{\$60\ 000}$ = 20% **(2)**

[2]

(d) Sales revenue has increased by \$2000 (or nearly 3.45) **(1)** but the ratio has fallen from 33.3% to 20% **(1)**
An increase in profit in absolute terms does not imply a rise in profitability of sales **(2)**

A decrease in selling price with no decrease in cost of goods sold **(2)**
A decrease in selling price with a less than proportionate decrease in cost of goods sold **(2)**

An increase in cost of goods sold with no increase in selling price **(2)**
An increase in cost of goods sold with a less than proportionate increase in selling price **(2)**

Over valuation of opening inventory **(2)**
Under valuation of inventory at close **(2)**

Allow reasonable alternative answers
Max 6 [6]

(e) Enables business to see how well it has performed **(2)** and how profitable sales for the year are **(2)**
Results can be compared with previous years **(2)**
It enables comparisons with other like businesses in same industry **(2)**
It may act as a warning sign since a fall in the ratio may indicate a fall in profitability of sales **(2)**
It shows the percentage gross profit on sales earned **(2)**

Allow reasonable alternative answers
Max 4 [4]

[Total: 26]

3 (a)

Working capital $13 000 **(2)** [2]

Current assets	Less	Current liabilities	
	$		$
Inventory	10 670	Trade payables	8 800
Trade receivables	11 200	Bank overdraft	4 200
Other receivables	4 130		
	26 000		13 000

(b) (i) Working capital ratio (Current ratio) 2:1 **(2) of** from (i) [2]

Current assets $26 000 of
Current liabilities $13 000 of

(ii) Quick ratio (acid test) 1.17:1 **(2) / (1) of** from (i) [2]

Alternative answer 0.86:1 **(2) / (1) of** from (i)

Current assets less inventory ÷ current liabilities
($26 000 – $10 670) ($13 000)

Alternative answer

Current assets – inventory – other payables ÷ current liabilities
($26 000 – $10 670 – $4130) ($13 000)

(c) Reasons:
Purchase of non-current assets $20 000 **(2)**
Cash withdrawn by Penn **(2)**
Loss from business operations **(2)**
Bank overdraft funds used to help finance purchase of non-current asset **(2)**
Non/late payments by trade receivables **(2)**
Fall in cash sales **(2)**

Allow any reasonable alternatives **Max 6** [6]

(d) Action:
Bring in more personal capital in the form of cash **(3)**
Consider increasing bank loans **(3)**
Reduce personal drawings **(3)**
Carry out review of non-current assets with a view to selling off surplus to requirements **(3)**
Chase late payers **(3)** offer settlement discounts **(3)**
Delay payments to trade payables **(3)**
Allow any reasonable alternatives **Max 6** [6]

[Total: 18]

4 (a)

Journal

	Dr	Cr
	$	$
Motor vehicles	24 000 **(1)**	
Villa Motors Limited		24 000 **(1)**

[2]

(b)

Provision for Depreciation account

2013		$	2012		$
			Mar 31	Income statement	4800 **(1)**
			2013		
Jan 23	Disposal account	2400 **(1)**	Mar 31	Income statement	1920 **(1)**
Mar 31	Balance c/d	4320			
		6720			6720
			Apr 1	Balance b/d	4320 **(2cf)**

[5]

(c)

Disposal account

2013		$	2013		$
Jan 23	Motor vehicle	12000 **(1)**	Jan 23	Bank	6500 **(1)**
				Provision for Depreciation	2400 **(1 of)**
			Mar 31	Income statement	3100 **(2 of)**
		12000			12000

[5]

(d) Straight-line method of depreciation **(1)**

Revaluation method of depreciation **(1)** [2]

[Total: 14]

5 (a)

Paul Lee
Manufacturing Account for the year ended 31 May 2013

	$	$
Inventory of raw materials 1 June 2012		33 000 **(1)**
Purchases of raw materials	133 687 **(1)**	
Transport cost ($29 400 × 65%)	19 110 **(1)**	152 797
		185 797
Inventory of raw materials 31 May 2013		(38 000) **(1)**
Cost of raw materials consumed		147 797 **(1)**
Direct labour ($140 600 – $56 000 × 40%)		33 840 **(1)**
Prime cost		181 637 **(1) of**
Factory overheads		
Production managers' salaries	56 000 **(1)**	
Indirect labour	29 610 **(1)**	
Indirect factory expenses	18 423 **(1)**	
Factory rent and rates ($28 000 × 80%)	22 400 **(1)**	
Factory heat and light ($23 140 + $860 × 70%)	16 800 **(1)**	
Depreciation of factory machinery	26 880 **(1)**	170 113
		351 750
Work in progress 1 September 2012	36 000	
Work in progress 31 August 2013	(42 600)	(6 600) **(1)**
Cost of production		345 150 **(1) of**

[15]

(b)

Paul Lee
Income statement for the year ended 31 May 2013

	$	$
Revenue		426 088 **(1)**
Less cost of sales		
Inventory of finished goods 1 June 2012	66 444 **(1)**	
Cost of production	345 150 **(1)**	
Inventory 31 May 2013	(71 200) **(1)**	(340 394)
Gross profit		85 694
Less		
Bad debts	1 000 **(1)**	
Loan interest ($2000 + $1000)	3 000 **(1)**	
Selling and administration expenses ($10 742 – $230)	10 512 **(1)**	
Wages ($140 600 – $56 000 × 25%)	21 150 **(1)**	
Lighting and heating ($23 140 + $860 × 30%)	7 200 **(1)**	
Rent and rates (28 000 × 20%)	5 600 **(1)**	
Transport (29 400 × 35%)	10 290 **(1)**	
Provision for doubtful debts	1 376 **(1)**	
Provision for depreciation of office equipment	7 200 **(1)**	(67 328)
Profit for the year		18 366

[13]

(c)

Paul Lee
Statement of Financial Position (Balance Sheet) as at 31 May 2013

Non-current assets	Cost	Accumulated Depreciation	Net Book Value
	$	$	$
Factory machinery	210 000	102 480	107 520
Office equipment	60 000	28 800	31 200
	270 000	131 280	138 720 **(1) of**
Current assets			
Inventory:			
Raw materials	38 000		
Work in progress	42 600		
Finished goods	71 200	151 800 **(1)**	
Trade receivables	34 400		
Provision for doubtful debts	(1 376)	33 024 **(1) of**	
Other receivables		230 **(1)**	
		185 054	
Current liabilities			
Trade payables	43 690 **(1)**		
Other payables	860 **(1)**		
Loan interest	1 000 **(1) of**		
Bank overdraft	658 **(1)**	(46 208)	
Net current assets			138 846
			277 566
Non-current liabilities			
6% Loan repayable 23 June 2018			(50 000) **(1)**
Net assets			227 566
Financed by			
Capital			220 000 **(1)**
Net profit			18 366 **(1) of**
Drawings			(10 800) **(1)**
			227 566

[12]

[Total: 40]