CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2014 series

7110 PRINCIPLES OF ACCOUNTS

7110/21 Paper 2 (Structured), maximum raw mark 120

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CAMBRIDGE
International Examinations

1 (a)

Date	Source document	Book of prime entry	Effect on owner's capital
August 2	*Purchase invoice*	*Purchases journal*	*No effect*
August 5	Credit note **(1)**	Purchase returns journal **(1)**	No effect **(1)**
August 7	Cheque counterfoil (stub) **(1)**	Cash book **(1)**	Increase **(1)**
August 9	Sales invoice **(1)**	General journal **(1)**	No effect **(1)**

[9]

(b)

Account	Sub division of the ledger
Purchases	General **(1)**
Tiara	Purchases **(1)**
Non-current assets	General **(1)**
D Costa	Sales **(1)**

[4]

(c)

Adil
Trial Balance at 31 August 2014

	Debit	Credit
	$	$
Non-current assets	9 500	
Trade payables		8 500
Trade receivables	7 250	
Inventory	3 850	
Bank overdraft		1 600 **(1)**
Purchases	14 400	
Revenue		22 000
Bank loan		2 000 **(1)**
Capital		3 000
Suspense account **(1)**	2 100 **(1of)**	
	37 100	37 100 **(1)**

[5]

[Total: 18]

2 **(a)** Physical deterioration/Wear and tear
Economic reasons/Obsolescence
Passage of time
Not
Depletion
(1) × 2 points [2]

(b)

Year ended	Delivery vehicle 1	Delivery vehicle 2	Total for year
	$	$	$
30 June 2013	3 000 **(1)**	-	3 000
30 June 2014	2 400 **(1)**	4 000 **(1)**	6 400
Total	5 400	4 000	

[3]

(c)

Provision for depreciation of delivery vehicles account

		$			$
30 June 2014	Disposal	5 400 **(1)**	1 July 2013	Balance b/d	3 000 **(1)**
30 June 2014	Balance c/d	4 000	30 June 2014	Income Statement	6 400 **(1)**
		9 400			9 400
			1 July 2014	Balance b/d	4 000 **(1of)**

[4]

(d)

Journal

	Dr	Cr	
	$	$	
Disposal	15 000		**(1) Both**
Delivery vehicle		15 000	
Provision for depreciation	5 400		**(1)**
Disposal		5 400	**(1)**
Bank	8 000		**(1) Both**
Disposal		8 000	
Income statement	1 600		**(1of)**
Disposal		1 600	**(1of)**

[6]

(e)

Statement of Financial Position at 30 June 2014

Non-current assets	Cost	Aggregate depreciation	Net book value
	$	$	$
Delivery vehicles	20 000 **(1)**	4 000 **(1)**	16 000

[2]

(f) 1 Revenue **(1)**
2 Capital **(1)**
3 Revenue **(1)** [3]

[Total: 20]

3 (a)

Wing Limited
Appropriation Account for the year ended 30 September 2014

	$	$
Profit for year (78 000 **(1)** – 6000 **(1)**)		72 000
Less		
Transfer to the general reserve	25 000 **(1)**	
Interim dividends:		
Preference paid	2 000 **(1)**	
Ordinary paid	8 000 **(1)**	
Final dividends:		
Preference paid	2 000 **(1)**	
Ordinary paid	20 000 **(1)**	
		57 000
Retained profit for the year		15 000 **(1) w+f**
Add Retained profit brought forward		35 000 **(1) w+f**
Retained profit carried forward		50 000 **(1) w+f**

[10]

(b)

Statement of Financial Position at 30 September 2014

	$	$
Issued share capital:		
50 000 8% $1 Preference shares	50 000 **(1)**	
80 000 $1 Ordinary shares	80 000 **(1)**	
		130 000
Reserves:		
General reserve	80 000 **(1)**	
Retained profit	50 000 **(1of)**	
		130 000
Shareholders' funds/equity **(1)**		260 000 **(1of)**

[6]

(c)

	Ordinary shares:	Debentures:
1	Owners	Creditors/providers of loans
2	Paid dividend	Paid interest
3	No fixed dividend	Fixed rate of interest
4	No repayment date	Repayment date

(1) × 2 difference [2]

(d) To retain cash in the business
To reinvest in assets to grow the business
(1) × 1 point [1]

(e) Enable a fair comparison of company financial statements in different countries.
Improve reliability of financial statements produced in different countries.
Improve understanding of financial statements produced in different countries.
(1) × 1 point [1]

[Total: 20]

4 (a)

Ratio	Workings	Answer
Percentage gross profit/sales	$\frac{600\,000 - 480\,000}{600\,000} = \frac{120\,000}{600\,000}$ **(1)** × 100 **(1)**	20% **(1)**
Percentage net profit/sales	$\frac{36\,000 - 8\,000}{600\,000} = \frac{28\,000}{600\,000}$ **(1)** × 100 **(1)**	4.7% **(1)**
Return on capital employed (ROCE)	$\frac{36\,000}{200\,000 + 100\,000} = \frac{36\,000}{300\,000}$ **(1)** × 100 **(1)**	12% **(1)**
Working capital ratio (Current ratio)	$\frac{75\,000 + 45\,000 + 60\,000}{50\,000} = \frac{180\,000}{50\,000}$ **(1)** **(1)**	3.6:1 **(1)**

[12]

(b) The current ratio is high/sufficient **(1)**
Well above the yardstick level of 2:1 **(1)**
There are currently some idle funds **(1)**
(1) × 2 points [2]

(c)

Proposals	Profit for the year			Capital employed		
	increase	decrease	no effect	increase	decrease	no effect
1			✓	✓		
2	✓ **(1)**				✓ **(1)**	
3	✓ **(1)**					✓ **(1)**
4		✓ **(1)**			✓ **(1)**	

[6]

(d) Proposal 1 Historical cost **(1)**
Proposal 2 Prudence **(1)** [2]

[Total: 22]

5 (a)

Nikolas
Manufacturing Account for the year ended 31 July 2014

	$	$	
Inventory of raw materials at 1 August 2013	15 000		
Purchases of raw materials	132 500		
	147 500		
Less: Inventory of raw materials at 31 July 2014	(17 500)		
Cost of raw materials consumed **(1)**	130 000		**(1)**
Factory wages	90 800		**(1)**
Royalties	15 000		**(1)**
Prime cost **(1)**		235 800	**(1of)**
Factory overheads:			
Indirect factory expenses	12 750		**(1)**
Rent (11 000 × 80%)	8 800		**(1)**
Production managers' salaries	38 250		**(1)**
Insurance (6200 – 1200 = 5000 **(1)** × 80% **(1)**)	4 000		
Provision for depreciation of machinery	10 000		**(1)**
		73 800	
		309 600	
Increase in work in progress (31 400 – 26 000)		5 400	**(1)**
Production cost **(1)**		315 000	

[14]

(b)

Income Statement for the year ended 31 July 2014

	$	$	
Revenue		505 000	**(1)**
Inventory of finished goods at 1 August 2013	40 000		
Production cost	315 000		**(1of)**
Drawings by owner	(7 500)		**(1)**
	347 500		
Inventory of finished goods at 31 July 2014	(42 500)		
Cost of sales		(305 000)	**(1of)**
Gross profit		200 000	
Less			
Insurance (6200 – 1200 = 5000 × 20%)	1 000		**(1)**
Rent (11 000 × 20%)	2 200		**(1)**
Office wages and salaries	56 000		**(1)**
Selling expenses	19 600		**(1)**
Distribution costs	31 500		**(1)**
Sundry office expenses (19 800 – 1400)	18 400		**(1)**
Loan interest (3500 + 1300)	4 800		**(1)**
Provision for depreciation on office equipment	5 500		**(1)**
Bad debts	3 000		**(1)**
Increase in provision for doubtful debts	700		**(1)**
		(142 700)	
Profit for the year		57 300	

[14]

(c)

Statement of Financial Position at 31 July 2014

	Cost	Aggregate depreciation	NBV	
	$	$	$	
Non-current assets				
Machinery	125 000	85 000	40 000	**(1of)**
Office fixtures	55 000	22 000	33 000	**(1of)**
	180 000	107 000	73 000	
Current assets				
Inventory:				
– Raw materials	17 500			
– Work in progress	26 000			
– Finished goods	42 500			
		86 000		**(1)**
Trade receivables	55 000			
Less: provision for				
– doubtful debts	2 200			**(1)**
		52 800		**(1of)**
Other receivables (1400 + 1200)		2 600		**(1)**
Bank		27 700		**(1)**
		169 100		
Less: current liabilities				
Trade payables	71 000			**(1)**
Other payables	1 300			**(1)**
		(72 300)		
Net current assets			96 800	**(1of)**
			169 800	
Non-current liabilities				
8% loan (repayable 31 May 2024)			(60 000)	**(1)**
			109 800	
Capital		80 000		
Plus: Profit for the year		57 300		
		137 300		
Less: Drawings (20 000 **(1)** + 7500 **(1)**)		(27 500)		
			109 800	

[13]

[Total: 40]