UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

## MARK SCHEME for the May/June 2010 question paper

## for the guidance of teachers

# 7110 PRINCIPLES OF ACCOUNTS

**7110/22** Paper 22 (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.

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**1** **(a)** Owner's capital $3 000 **(1)**

Capital employed $6 500 **(1)** [2]

**(b)**

| Item | Book of prime entry | Effects on current assets | Effect on current liabilities | Effect on capital |
|---|---|---|---|---|
| **(i)** | Cash book | –$200 | No effect | –$200 |
| **(ii)** | Purchases day book **(1)** | +$1 500 **(1)** | +$1 500 **(1)** | No effect **(1)** |
| **(iii)** | Sales day book **(1)** | +$800 **(1)** | No effect **(1)** | +$800 **(1)** |
| **(iv)** | Cash book **(1)** | –$4 000 **(1)** | No effect **(1)** | No effect **(1)** |
| **(v)** | Cash book **(1)** | –$1 440 **(1)** | –$1 500 **(1)** | +$60 **(1)** |

[16]

**(c)** Trial balance of Leung as at 31 May 2010

| | Dr $ | Cr $ | |
|---|---|---|---|
| Gross profit | | 6 650 | **(1)** |
| Inventory (stock) | 4 600 | | **(1)** |
| Bank loan | | 3 500 | **(1)** |
| Trade receivables (debtors) | 1 200 | | **(1)** |
| Trade payables (creditors) | | 2 100 | **(1)** |
| Office equipment | 4 000 | | **(1)** |
| Cash (bank) | 1 750 | | **(1)** |
| Discount received | | 150 | **(1)** |
| Rent and expenses | 3 850 | | **(1)** |
| Capital | | 3 000 | **(1)** |
| | 15 400 | 15 400 | |

Marks awarded for description and figure. [10]

**[Total: 28]**

**2 (a)** Purchase Ledger Control Account

| | $ | | | $ | |
|---|---|---|---|---|---|
| Bank/cash | 47 000 | **(1)** | Balance b/d | 1 700 | **(1)** |
| Discount received | 300 | **(1)** | Purchases | 47 900 | **(1)** |
| Balance c/d | 2 300 | **(1)** | | | |
| | 49 600 | | | 49 600 | |

[5]

**(b) (i)** Net pay of Susan

| | $ | |
|---|---|---|
| Salary | 950 | **(1)** |
| Tax and social security | 165 | |
| | 785 | **(1)of** |

[2]

**(ii)** Cost of employing Susan

| | $ | |
|---|---|---|
| 160 × $5 = | 800 | |
| 20 × $7.5 = | 150 | |
| Salary | 950 | **(1)of** |
| Social security | 90 | |
| | 1 040 | **(1)of** |

[2]

**(c)** Journal

| | Dr<br>$ | Cr<br>$ | |
|---|---|---|---|
| Wages and expenses | 1 040 | | **(1)of** |
| Bank | | 785 | **(1)of** |
| Tax authorities | | 255 | **(1)of** |

[3]

**(d)** Tsang

Income statement (Trading and Profit and Loss Account) for the month ended 31 March 2010

| | $ | | $ | |
|---|---|---|---|---|
| Revenue (sales) | | | 65 000 | |
| Opening inventory (stock) | 3 400 | | | |
| Purchases | 47 900 | **(1)** | | |
| | 51 300 | | | |
| Closing inventory (stock) | 2 900 | | | |
| Cost of sales | | | 48 400 | |
| Gross profit | | | 16 600 | **(2)1of** |
| Discount received | | | 300 | **(1)** |
| | | | 16 900 | |
| Wages & expenses | | | 2 500 | **(1)** |
| Profit for the year (net profit) | | | 14 400 | **(1)of** |

Alternatives formats accepted [6]

**[Total: 18]**

**3** **(a)** Goodwill is the value of a business over and above the value of its recorded assets. **(1)** Examples would include reputation, quality of service, brand names, location, existing workforce, regular customers **(1)**. [2]
OR
Goodwill is the difference between the value of the separate net assets of a business and the total value of the business.

**(b)** Money measurement [2]
Prudence [2]

**(c)** Calculation:

| | **(i)** Chan | | **(ii)** David | | |
|---|---|---|---|---|---|
| | $ | | $ | | |
| Capital 31 August 2009 | 50 000 | | 15 000 | | |
| Less share of goodwill | 20 000 | **(1)** | 10 000 | **(1)** | |
| Capital 1 September 2009 | 30 000 | **(1)** | 5 000 | **(1)** | [4] |

**(d)**

Newstart
Balance Sheet at 1 April 2009

| | $ | | $ | | |
|---|---|---|---|---|---|
| Non-current (fixed) assets | | | 33 000 | **(1)** | |
| Current assets | | | | | |
| Inventory (stock) | 12 000 | | | | |
| Trade receivables (debtors) | 7 000 | | | | |
| | 19 000 | **(1)** | | | |
| Current liabilities | | | | | |
| Trade payables (creditors) | 11 000 | **(1)** | | | |
| Bank overdraft | 6 000 | **(1)** | | | |
| | 17 000 | | | | |
| Net current assets | | | 2 000 | | |
| | | | 35 000 | | |
| Financed by: | | | | | |
| Capital – Chan | 30 000 | **(1)of** | | | |
| David | 5 000 | **(1)of** | | | |
| | | | 35 000 | | [6] |

**(e)** Newstart

Income statement (Profit and Loss Appropriation Account) for the year ended 31 March 2010

| | $ | $ | |
|---|---|---|---|
| Profit for the year (net profit) | | 10 250 | |
| Plus interest on drawings | | | |
| Chan | 750 | | **(1)** |
| David | 1 000 | | **(1)** |
| | | 1 750 | |
| | | 12 000 | |
| Less salaries | | | |
| Chan | 8 000 | | |
| David | 7 000 | | **(1)** for both salaries |
| | | (15 000) | |
| | | (3 000) | |
| Share of losses | | | |
| Chan | (2 000) | | **(1)of** if correct split |
| David | (1 000) | | **(1)of** if correct split |
| | | (3 000) | [5] |

**[Total: 21]**

**4 (a) (i)** Cost of sales

| | $ | |
|---|---|---|
| Sales | 250 000 | |
| Less 40% Gross profit | 100 000 | |
| Cost of sales | 150 000 | **(3)** [3] |

**(ii)** Raw materials (purchases)

| | $ | |
|---|---|---|
| Opening stock | 10 000 | |
| Purchases | 165 000 | **(2)of** |
| | 175 000 | |
| Closing stock | 25 000 | **(1)** |
| Cost of sales | 150 000 | **(1)of** [4] |

**(iii)** Expenses

| | | $ | |
|---|---|---|---|
| Gross profit | 40% | 100 000 | |
| Expenses | | 80 000 | **(3)** |
| Net profit | 8% | 20 000 | [3] |

**(iv)** Rate of inventory (stock) turnover

$$\frac{\text{Cost of goods sold}}{\text{Average inventory (stock)}} = \frac{150\,000\ \textbf{(of)}}{((10\,000 + 25\,000)/2)} = 8.57 \text{ times } \textbf{(3)of}$$ [3]

**[Total: 13]**

**5 (a)**

Wang Yee
Manufacturing Account for the year ended 31 January 2010

| | $ | $ | | |
|---|---|---|---|---|
| Inventory (stock) of raw materials at 1 February 2009 | 14 700 | | **(1)** | |
| Purchases of raw materials | 75 600 | | **(1)** | |
| | 90 300 | | | |
| Less: Inventory (stock) of raw materials at 31 January 2010 | 16 250 | | **(1)** | |
| Cost of raw materials consumed | 74 050 | | **(1)** | |
| Direct factory wages ($62 140 + $1 120) | 63 260 | | **(1)** | |
| Prime cost | | 137 310 | **(1)** | |
| Rent | 16 800 | | **(1)** | |
| Factory managers salary | 31 500 | | **(1)** | |
| Provision for depreciation of plant and machinery | 11 600 | | **(1)** | |
| | | 59 900 | | |
| | | 197 210 | | |
| Add decrease in work in progress ($23 570 – $18 780) | | 4 790 | **(1)** | |
| Cost of production | | 202 000 | **(1)** | [11] |

**(b)**

Wang Yee
Income statement (trading and profit and loss account) for the year ended 31 January 2010

| | $ | $ | | |
|---|---|---|---|---|
| Revenue (sales) | | 342 500 | **(1)** | |
| Less Revenue (sales) returns | | 1 250 | **(1)** | |
| | | 341 250 | | |
| Inventory (stock) of finished goods at 1 February 2009 | 35 000 | | **(1)** | |
| Cost of production | 202 000 | | **(1)of** | |
| Raw materials (purchases) of finished goods | 15 500 | | **(1)** | |
| | 252 500 | | | |
| Inventory (stock) of finished goods at 31 January 2010 | 32 500 | | **(1)** | |
| Cost of sales | | 220 000 | | |
| Gross profit | | 121 250 | | |
| Rent | 11 200 | | **(1)** | |
| Office salaries | 41 600 | | **(1)** | |
| Distribution costs | 28 650 | | **(1)** | |
| Sundry office expenses ($9 870 – $630) | 9 240 | | **(1)** | |
| Finance costs (loan interest) ($2 400 + $800) | 3 200 | | **(2)** | |
| Provision for depreciation of | | | | |
| Office equipment ($24 000 × 20%) $4 800 | | | | |
| ($6 000 × 20% × 4 ÷ 12) 400 | 5 200 | | **(2)** | |
| Increase in provision for doubtful debts | 250 | | **(1)** | |
| | | 99 340 | | |
| Profit for the year (net profit) | | 21 910 | | [15] |

**(c)** Wang Yee
Balance sheet as at 31 January 2010

| | Cost | Depreciation to date | NBV | |
|---|---|---|---|---|
| | $ | $ | $ | |
| Non-current (fixed) assets | | | | |
| Property (land and buildings) | 80 000 | | 80 000 | **(1)** |
| Plant and machinery | 90 000 | 43 600 | 46 400 | **(1)** |
| Office equipment | 30 000 | 17 200 | 12 800 | **(1)** |
| | 200 000 | 60 800 | 139 200 | |
| Current assets | | | | |
| Inventory (stock) | | | | |
| Raw materials | 16 250 | | | |
| Work in progress | 18 780 | | | |
| Finished goods | 32 500 | | | |
| | | 67 530 | | **(1)** |
| Trade receivables (debtors) | 45 000 | | | |
| Less: provision for doubtful debt | 1 800 | | | |
| | | 43 200 | | **(2)** |
| Other receivables (prepaid expenses) | | 630 | | **(1)** |
| | | 111 360 | | |
| Less: Current liabilities | | | | |
| Trade payables (creditors) | 60 700 | | | **(1)** |
| Other payables (accrued expenses) ($1 120 + $800) | 1 920 | | | **(2)** |
| Loan repayable within 12 months (bank overdraft) | 33 030 | | | **(1)** |
| | | 95 650 | | |
| Net current assets | | | 15 710 | **(1)** |
| | | | 154 910 | |
| Non-current (long term) liabilities | | | | |
| 8% loan repayable 31 December 2015 | | | 40 000 | **(1)** |
| | | | 114 910 | |
| Financed by: | | | | |
| Capital | | 110 000 | | |
| Plus: Net profit | | 21 910 | | |
| | | 131 910 | | |
| Less: Drawings | | 17 000 | | |
| | | | 114 910 | **(1)of** [14] |

**[Total: 40]**