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

**7110/21** 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.

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UNIVERSITY of CAMBRIDGE
International Examinations

**1** **(a)** **(i)** $80 000 **(1)** [1]

**(ii)** $130 000 **(1)** [1]

**(b)**

| Transaction | Book of original entry | Debit entry | Credit entry | Effect on capital $ |
|---|---|---|---|---|
| **(i)** | Purchases Journal | Purchases | Henry | Nil |
| **(ii)** | Sales journal **(1)** | Mary **(1)** | Sales **(1)** | +200 **(1)** |
| **(iii)** | Cash Book **(1)** | Henry **(1)** | Bank Discount **(1)** for both | +10 **(1)** |
| **(iv)** | Sales returns journal **(1)** | Sales returns **(1)** | Mary **(1)** | -20 **(1)** |

[12]

**(c)** **(ii)** The invoice is a demand for payment from Mary. **(2/0)**

**(iii)** A cheque will be raised to pay Henry and the counterfoil will be completed as a record of the payment. **(2/0)**

**(iv)** The credit note will acknowledge the return of goods by Mary. Her account will be credited in Joe's books. **(2/0)**

[6]

**[Total: 20]**

**2** **(a)** Identify and locate errors
Prevent fraud with separation of duties
Speedy calculation of summarised trade payables and trade receivables
**(1)** per point × 2 [2]

**(b)**

Sales Ledger Control Account

| 2011 | $ | | 2011 | $ | |
|---|---|---|---|---|---|
| Balance b/d | 64 350 | **(1)** | Bank | 136 800 | **(1)** |
| Sales | 153 400 | **(1)** | Discount allowed | 5 250 | **(1)** |
| | | | Bad debts | 7 900 | **(1)** |
| | | | Returns inwards | 8 100 | **(1)** |
| | | | Balance c/d | 59 700 | **(1)** |
| | 217 750 | | | 217 750 | |
| May 1 Balance b/d | 59 700 | **(1of)** | | | |

[8]

**(c)** **(i)**

Journal

| | Dr | Cr | | |
|---|---|---|---|---|
| | $ | $ | | |
| 1. D.Holme | 485 | | | **(1)** |
| D. Hume | | | 485 | **(1)** |
| 2. Office equipment | 550 | | | **(1)** |
| Purchases | | 550 | | **(1)** |

**(ii)** 2 × 1 mark for reference to relevant accounting concepts **(2)** [6]

**(d)**

| | $ | |
|---|---|---|
| 35 hours × $7 = | 245 | **(1)** |
| 10 hours × $10.5 = | 105 | **(1)** |
| | 350 | |
| Employers' tax | 35 | **(1)** |
| Total cost | 385 | **(1)** |

[4]

**[Total: 20]**

**3** **(a)** Salaries
Rate of interest on capital
Rate of interest on drawings
Arrangements for loans
Arrangements for introduction/retirement of partners
**(1)** per point × 2 [2]

**(b)**

Choong and Tan
Appropriation Account for the year ended 30 April 2011.

| | $ | | $ | |
|---|---|---|---|---|
| Profit for the year | | | 32 000 | |
| Less | | | | |
| Interest on capital: | | | | |
| Choong | 4 000 | **(1)** | | |
| Tan | 2 500 | **(1)** | | |
| | | | 6 500 | |
| | | | 25 500 | |
| Salary: Tan | | | 9 000 | **(1)** |
| | | | 16 500 | |
| Share of profit: | | | | |
| Choong | 11 000 | **(1)** | | |
| Tan | 5 500 | **(1)** | | |
| | | | 16 500 | |

[5]

**(c)**

Current Accounts

| | | Choong | Tan | | | | Choong | Tan | |
|---|---|---|---|---|---|---|---|---|---|
| 2010 | | $ | $ | | 2010 | | $ | $ | |
| May 1 | Balance b/d | | 1 500 | | May 1 | Balance b/d | 1 200 | | **(1)** |
| 2011 | | | | | 2011 | | | | |
| Apl 30 | Drawings | 14 700 | 16 000 | **(1)** | Apl 30 | Int on cap | 4 000 | 2 500 | **(1of)** |
| | | | | | | Salary | | 9 000 | **(1of)** |
| | | | | | | Share of profit | 11 000 | 5 500 | **(1of)** |
| | Balance c/d | 1 500 | | | | Balance c/d | | 500 | **(1)** |
| | | 16 200 | 17 500 | | | | 16 200 | 17 500 | |
| May 1 | Balance c/d | | 500 | | | Balance c/d | 1 500 **(1of)** | | |

Alternative: allow separate accounts [7]

**(d)** Difficult to value
Against principle of money measurement
Intangible
Allow any acceptable alternatives.
**(2)** × one point [2]

**(e)**

Capital Accounts

| 2011 | Choong $ | Tan $ | | 2011 | Choong $ | Tan $ | | |
|---|---|---|---|---|---|---|---|---|
| Goodwill | 60 000 | 30 000 | **(2)** | Balance b/d | 80 000 | 50 000 | **(1)** | |
| Balance b/d | 20 000 | 20 000 | | | | | | |
| | 80 000 | 80 000 | | | 80 000 | 50 000 | | |
| | | | | Balance b/d | 20 000 | 20 000 | **(1of)** | [4] |

**[Total: 20]**

**4 (a) (i)** $\dfrac{\text{Net profit}}{\text{Revenue}} \times 100 = \dfrac{44\,000}{220\,000} \times 100$ **(1)** **(1)** = 20% **(1)**

**(ii)** $\dfrac{\text{Net profit}}{\text{Capital}} \times 100 = \dfrac{44\,000}{160\,000} \times 100$ **(1)** **(1)** = 27.5% **(1)**

**(iii)** $\dfrac{\text{Current assets}}{\text{Liabilities due in less than one year}} = \dfrac{35\,000 + 40\,000 + 15\,000}{60\,000}$ **(1)** **(1)** = 1.5:1 **(1)**

**(iv)** $\dfrac{\text{Current assets - Inventory}}{\text{Liabilities due in less than one year}} = \dfrac{40\,000 + 15\,000}{60\,000}$ **(1)** **(1)** = 0.9:1 **(1)**

[12]

**(b)** Revenue is reduced by $40 000
Gross profit % appears to be reduced
Expenses have reduced, but not in proportion to the revenue.
**(2)** per point × 2 [4]

**(c)** Increased capital which could have been in cash
Possible reduced drawings
Reduced inventory
Improved collection of debts
Reduced expenses.
**(2)** per point × 2 [4]

**[Total: 20]**

**5 (a)**

Yip Sin
Manufacturing Account for the year ended 30 April 2011

| | $ | $ | | |
|---|---|---|---|---|
| Inventory of raw materials at 1 May 2010 | 20 900 | | **(1)** | |
| Purchases of raw materials | 147 200 | | **(1)** | |
| | 168 100 | | | |
| Less: Inventory of raw materials at 30 April 2011 | 28 100 | | **(1)** | |
| Cost of raw materials consumed | 140 000 | | **(1)** | |
| Direct factory wages (85 960 + 4040) | 90 000 | | **(1)** | |
| Royalties | 10 000 | | **(1)** | |
| Prime cost **(1)** | | 240 000 | **(1)** | |
| Factory overheads: | | | | |
| Indirect factory expenses | 23 450 | | **(1)** | |
| Rent | 24 000 | | **(1)** | |
| Factory management salaries | 36 000 | | **(1)** | |
| Provision for depreciation of plant and machinery | 10 000 | | **(1)** | |
| | | 93 450 | | |
| | | 333 450 | | |
| Add increase in work in progress (30 800 – 34250) | | (3 450) | **(1)** | |
| Cost of production **(1)** | | 330 000 | | [14] |

**(b)**

Income Statement for the year ended 30 April 2011

| | $ | $ | | |
|---|---|---|---|---|
| Revenue | | 450 000 | **(1)** | |
| Inventory of finished goods at 1 May 2010 | 40 750 | | | |
| Cost of production | 330 000 | | **(1of)** | |
| | 370 750 | | | |
| Inventory of finished goods at 30 April 2011 | 42 350 | | **(1)** | |
| Cost of sales | | 328 400 | | |
| Gross profit | | 121 600 | | |
| Rent | 6 000 | | **(1)** | |
| Office salaries | 28 500 | | **(1)** | |
| Advertising (20 940 – 1 700) | 19 240 | | **(1)** | |
| Distribution costs | 18 650 | | **(1)** | |
| General office expenses (11 300 – 2 000) | 9 300 | | **(2)** | |
| Loan interest (1 500 + 1 500) | 3 000 | | **(1)** | |
| Provision for depreciation on office equipment | 2 600 | | **(2)** | |
| Increase in provision for doubtful debts | 800 | | **(1)** | |
| | | 88 090 | | |
| Profit for the year | | 33 510 | | [13] |

**(c)** Balance sheet as at 30 April 2011

| | Cost | Depreciation to date | NBV | |
|---|---|---|---|---|
| | $ | $ | $ | |
| Non-current assets | | | | |
| Plant and machinery | 75 000 | 35 000 | 40 000 | **(1)OF** |
| Office equipment | 26 000 | 11 600 | 14 400 | **(1)OF** |
| | 101 000 | 46 600 | 54 400 | |
| Current assets | | | | |
| Inventory: | | | | |
| Raw materials | 28 100 | | | |
| Work in progress | 34 250 | | | |
| Finished goods | 42 350 | | | |
| | | 104 700 | | **(1)** |
| Trade receivables | 64 000 | | | |
| Less: provision for doubtful debts | 3 200 | | | |
| | | 60 800 | | **(2)** |
| Other receivables | | 1 700 | | **(1)** |
| Bank | | 4 200 | | **(1)** |
| | | 171 400 | | |
| Less: Current liabilities | | | | |
| Trade payables | 61 750 | | | **(1)** |
| Other payables (accrued expenses) (4040 + 1500) | 5 540 | | | **(2)** |
| | | 67 290 | | |
| Net current assets | | | 104 110 | |
| | | | 158 510 | |
| Non-current liabilities | | | | |
| 6% loan repayable 31 December 2020 | | | 50 000 | **(1)** |
| | | | 108 510 | |
| Financed by: | | | | |
| Capital | | 100 000 | | |
| Plus: Profit for the year | | 33 510 | | **(1)** |
| | | 133 510 | | |
| Less: Drawings | | 25 000 | | |
| | | | 108 510 | **(1of)** |

[13]

**[Total: 40]**