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

7110/22 Paper 2 (Structured), maximum raw mark 100

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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a)

Three Column Cash Book (Bank columns only)

		$				$	
April 27	Sales	630	**(1)**	April 24	Balance b/d	150	**(1)**
April 28	Loula	1920	**(1)**	April 25	Drawings	200	**(1)**
				April 26	Kerai	388	**(1)**
				April 26	Susan	720	**(1)**
				April 29	Wages	430	**(1)**
				April 30	Balance c/d	662	**(1)**
		2550				2550	

[8]

(b)

May 1 Balance b/d	662		May 1	Balance b/d	686
May 1 Dividend	24	**(1)**			
	686				686
May 1 Balance b/d	686	**(1of)**			

[2]

(c)

Bank Reconciliation Statement at 1 May 2011

	$		
Balance as per Bank Statement	(804)	Dr	**(1)**
Add:			
Cheque banked – Loula	1920		**(2)**
	1116		
Less:			
Unpresented cheque-wages	(430)		**(2)**
Balance as per Cash Book **(1)**	686		**(1of)**

Accept alternative presentations i.e. starting with Cash book balance. [7]

(d)

	Ledger account	Book of prime entry	Both a ledger account and a book of prime entry
Stock	✓		
Purchase journal		✓ **(1)**	
Cash book			✓ **(1)**
Provision for depreciation	✓ **(1)**		

[3]

[Total: 20]

2 **(a)** To account for cost consumed / used during the financial year
To charge a share of the cost to the income statement for the year
Reduce the book value of non-current assets in the balance sheet
To spread the cost over its useful economic life
Wear & tear, passage of time, obsolescence & depletion (2 per point)
Comply with accounting principles and concepts, e.g. prudence, matching.
(2–0) × 2 points [max 4]

(b) Machinery will lose a high proportion of its value in the early years
Low maintenance costs in early years, higher in later years
Changes in technology may outdate the machinery
(2–0) × 2 points [2]

(c) Calculation of depreciation:

	Machinery		Office furniture		Loose tools	
	$		$		$	
Cost/value	80 000		15 000		1 050	
Additions	18 000		-		630	
	-		(1 000)		-	
	98 000		14 000		1 680	
Accum Prov	60 000		4 800			
	38 000		9 200			
Depreciation 25%	9 500	**(2–0)**	1 400	**(2–0)**	280	**(2–0)**
Net book value	28 500		7 800		1 400	

[6]

(d)

	$	
Cost	1 000	
Depreciation	200	**(1)**
	800	
Sale price	550	**(1)**
Loss on sale	250	**(1of)**

[3]

(e) Non-current assets

	Cost	Accumulated Depreciation	Net book value	
	$	$	$	
Machinery	98 000	69 500 (>60k)	28 500	**(1of)**
Office furniture	14 000	6 200 (>5k)	7 800	**(1of)**

[2]

(f)

	Capital expenditure	Revenue expenditure
Purchase of spares for machinery		✓ **(1)**
Installation of additional machinery	✓ **(1)**	
Repairs to office equipment		✓ **(1)**
Purchase of additional loose tools	✓ **(1)**	

[4]

[Total: 21]

3 **(a)**

	$			$		
Bank received	60 500		Bank payments	34 900		
Trade receivables 30 April	8 400		Trade payables 30 April	9 300		
	68 900			44 200		
Trade receivables 1 May	9 750		Trade payables 1 May	10 500		
Sales	59 150	**(3)**	**Purchases**	33 700	**(3)**	[6]

(b)

Tanvir
Income Statement for the year ended 30 April 2011

	$		$		
Revenue (sales)			59 150	**(1of)**	
Less Cost of sales					
Opening inventory	5 250				
Add purchases	33 700	**(1of)**			
	38 950				
Less closing inventory	(11 000)				
Cost of sales			(27 950)		
Gross profit			31 200	**(1of)**	
Less					
Wages	15 000				
Light & heat	3 350	**(1)**			
General expenses	6 000				
Loan interest	1 200	**(1)**			
Loss on sale	250	**(1)**			
Depreciation	5 000	**(2)**			
			(30 800)		
Profit for the year			400	**(1of)**	[9]

(c)

Balance Sheet at 30 April 2011

	$		$		
Non-current assets			42 000		
Current assets					
Inventory	11 000				
Trade receivables	8 400	**(1)**			
	19 400				
Current Liabilities					
Trade payables	9 300				
Accruals	1 450	**(1)**			
Bank overdraft	10 250				
	21 000				
Net Current Assets			(1 600)		
			40 400		
Long term liabilities					
6% Bank loan			(20 000)	**(1)**	
			20 400		
Capital 1 May 2010			25 000		
Add Profit for the year			400	**(1of)**	
			25 400		
Less Drawings			(5 000)	**(1)**	
			20400		[5]

[Total: 20]

4 (a) (i)

	$		
Opening inventory	5 500		
Purchases	72 000		
	77 500		
Closing inventory	7 500		
Cost of sales	70 000	**(1)**	
Gross profit (50%)	35 000	**(1)**	
Revenue	105 000	**(1 of)**	[3]

(ii) $\frac{\text{Cost of sales}}{\text{Average inventory}}$ $\frac{\$70\,000}{\$6\,500}$ **(1of)** = 10.8 times **(1 of)**
(1) (Need 'times') [3]

(iii)

	$		
Gross profit	35 000		
Operating expenses	23 500		
Net profit	11 500	**(2 or 1of)** (if use own gross profit in **(a)(i)**)	[2]

(iv) $\frac{\text{Net profit}}{\text{Revenue}} \times 100 = \frac{11\,500}{105\,000} \times 100$ **(1of)** / **(1of)** = 11% **(1 of)** (accept 10.9%. need % label) [3]

(v) $\frac{\text{Net profit}}{\text{Capital}} \times 100 = \frac{11\,500}{75\,000} \times 100$ **(1of)** / **(1)** = 15.3% **(1of)** [3]

(b) The seller will make a **small mark up** (or **low selling price**) on each item **(1)** will have a **high volume** of sales **(1)**. [2]

(c)

	Increase rate of inventory turnover	Decrease rate of inventory turnover
(i) Hold a 'Sale' and reduce prices by 20%.	✓ **(1)**	
(ii) Increase the inventory by $20 000.		✓ **(1)**
(iii) Raise selling prices by 10%.		✓ **(1)**

[3]

[Total: 19]

5

Fu, Li and Yang
Income Statement and Appropriation Account for the year ended 30 April 2011 **(1)**

	$		$	
Revenue			209 500	
Opening inventory	30 650			
Add Purchases	111 200			
Less returns	(4 750)	**(1)**		
	137 100			
Closing inventory	28 100	**(1)**		
Cost of sales			109 000	**(1)**
Gross profit			100 500	**(1of)**
Discount received			5 300	**(1)**
			105 800	
Rent (7500 + 2500)	10 000	**(1)**		
Salaries & Wages	42 100			
Heat and light	3 890			
General expenses (16 750 – 4 200)	12 550	**(1)**		
Marketing	12 050			
Depreciation-				
Motor vehicles	2 560	**(2)**		
Fixtures	3 000	**(2)**		
Increase in PDD	750	**(2)**		
			86 900	
Profit for the year			18 900	**(1of)**
Interest on drawings:				
Fu	500	**(1)**		
Li	500	**(1)**		
Yang	600	**(1)**		
			1 600	
			20 500	
Interest on capital:				
Fu	1 600	**(1)**		
Li	1 400	**(1)**		
Yang	1 000	**(1)**		
			(4 000)	
			16 500	
Share of profit:				
Fu	6 600	**(1of)**		
Li	6 600	**(1 of)**		
Yang	3 300	**(1of)**		
			16 500	

[24]

(b)

Statement of Financial Position at 30 April 2011

	$	$	$	
Non-current assets	Cost	Accumulated Depreciation	Net Book Value	
Premises			44 750	
Motor vehicles	16 000	5 760	10 240	**(1of)**
Fixtures	30 000	20 500	9 500	**(1of)**
	46 000	26 260	64 490	**(1of)**
Current assets				
Inventory		28 100		
Trade receivables	45 000			
Less PDD	2 250	**(1of)** (<1500)		
		42 750 **(1of)** (providing PDD is deducted)		
Prepaid		4 200 **(1)**		
Bank		7 560		
		82 610		
less				
Liabilities due in less than one year				
Trade payables	54 700			
Other payables	2 500 **(1)**			
	57 200			
Net current assets (accept working capital)			25 410	**(1 of labelled)**
			89 900	

Financed by:

	Fu	Li	Yang		Total
	$	$	$		$
Capital:	40 000	35 000	15 000	**(1)**	90 000
Current:					
Opening balance	2 500 Cr	1 500 Cr	(1 000) Dr	**(1)**	
Transfer of capital			10 000	**(1)**	
Interest on capital	1 600	1 400	1 000	**(1of)**	
Share of profit	6 600	6 600	3 300	**(1of)**	
	10 700	9 500	13 300		
Interest on drawings	500	500	600	**(1of)**	
Drawings	10 000	10 000	12 000	**(1)**	
	10 500	10 500	12 600		
Closing balances	200	(1 000)	700	**(1of)**	
					100 Dr
					89 900

[16]

Alternative presentation accepted

Current Accounts

	Fu	Li	Yang			Fu	Li	Yang	
	$	$	$			$	$	$	
Balance b/d			1 000	**(1)**	Balance b/d	2 500	1 500		
Int on Dra'gs	500	500	600	**(1 of)**	Capital transfer			10 000	**(1)**
Drawings	10 000	10 000	12 000	**(1)**	Int on cap	1 600	1 400	1 000	**(1 of)**
					Share of profit	6 600	6 600	3 300	**(1 of)**
Balance c/d	200		700	**(1 of)**	Balance c/d		1 000		
	10 700	10 500	14 300			10700	10 500	14 300	

[16]

[Total: 40]