

**MARK SCHEME for the October/November 2007 question paper**

**7110 PRINCIPLES OF ACCOUNTS**

**7110/02**

Paper 2 (Structured), maximum raw mark 100

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1 (a)

	\$	
Gross sales	1 200	
Trade discount	(300) (1)	
	900	
Cash discount	(90) (1)	
Net sales	810 (1)	[3]

- (b) (i) 1 Overstated sales have overstated net profit. (1)  
 2 Office equipment is capital expenditure and will not affect profit until the asset is owned for a full year. (1)  
 OR  
 No effect, depreciation has not been charged. (1)  
 3 Prepaid insurance has no effect on profit. (1) [3]

(ii)

	\$	
Profit before adjustment	14 200	
Effect of overstated sales		
	(1200 – 810)	(390) (2)/(1 of)
Corrected profit	13 810 (1 of) (if no aliens)	[3]

- (c) The bank balance is not affected. (1)  
 Fixed assets (office equipment) have been overstated. (1) [2]

[Total: 11]

- 2 (a) (i) Capital \$40 000 (1)  
 Capital employed \$64 600 (1) [2]

- (ii) Capital is the amount invested by the shareholders/owners of the business. (1)  
 Capital employed is the amount of money used in the business represented by shares plus profit and loss account (1) or net assets. (1)  
 Accept other definitions of capital employed. [max 2]

- (b) Net assets reduced by \$4 300. (1)  
 As share capital is unchanged, the profit and loss balance has reduced (1)  
 The company has made a loss for the year. (1)  
 The company may have made a profit but distributed a high proportion of dividends. (2)  
 [max 3]

- (c) Increase/sell shares. (1)  
 Increase profits/make a profit (1)  
 Reduce appropriations/dividends. (1)  
 Obtain long term loans  
 issue debentures/bonds [3]

[Total: 10]

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- 3 (a) Cost – historical/invoice price (1)  
 Net realisable value – amount stock would sell for at date of valuation. (1)  
**OR** market value less expenses (1)  
 (N.B. Do not accept market price.) [2]
- (b) Gross profit would increase by \$200. (1)  
 Net profit would increase by \$200. (1) [2]
- (c) Stock turnover has worsened. (1)  
 Some stock may be obsolete (1) and remains in stores. (1)  
 Sales activity may be slower (1) because of competition. (1)  
 Changed circumstances may mean closing stock figures are higher in latest year affecting ratio. (2)  
 Falling demand  
 Changes in fashion  
 Sale price is too high [max 4]
- (d) Reduce prices to sell goods more quickly. (1)  
 Only replace stock when needed. (1)  
 Advertise/Sales promotions  
 Dispose of obsolete stock  
 Offer discounts to promote sales [max 2]
- [Total: 10]**

4 CookSmart Ltd  
 Manufacturing Account for the year ended 30 September 2007

RAW MATERIALS

Opening Stock	18 700	1
Add Purchases	111 400	1
Carriage	<u>31 200</u>	1
	161 300	
<u>Less Closing Stock</u>	<u>(18 100)</u>	1
Cost of materials consumed	143 200	1
Containers and packaging (34 100 1 + 176 200 1 – 33 800 1)	176 500	(3)
Factory wages	<u>103 400</u>	1
PRIME COST	423 100	1 of
<u>Factory Overheads</u>		
Salary Factory Supervisor	21 800	1
Depreciation Factory Plant	<u>96 200</u>	1
	541 100	
Add work in progress	<u>100</u>	1
	541 200	for
Less work in progress	<u>(200)</u>	figs
Cost Production	541 000	1

**[Total: 17]**

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**5 (a)**

	\$	Debtors	\$	
Balance b/d	9 300	Bank	112 070 (1)	
Sales	<u>113 000</u> (1)	Balance c/d	<u>10 230</u> (1)	
	<u>122 300</u>		<u>122 300</u>	[3]

**(b)**

	\$	Creditors	\$	
Bank	95 400 (1)	Balance b/d	8 700	
Balance c/d	<u>9 570</u> (1)	Purchases	<u>96 270</u> (1)	
	<u>104 970</u>		<u>104 970</u>	[3]

**(c) (i) Working capital calculation at 30 September 2007**

	\$	\$	
Stock		14 300	
Debtors		9 300	
Cash at bank		<u>6 400</u>	
		30 000 (1)	
Creditors		<u>8 700</u> (1)	
Working capital		<u>21 300</u> (1)	[3]

**(ii) Working capital calculation at 30 September 2007**

	\$	\$	
Stock		15 730 (1 of)	
Debtors		<u>10 230</u> (1 of)	
		25 960	
Creditors	9 570 (1 of)		
Bank Overdraft	<u>11 530</u> (1)	<u>21 100</u>	
Working capital		<u>4 860</u> (1 of)	[5]

- (d) Working has decreased (1) by 16 440 (1 of)**  
 The bank balance has become an overdraft. (1)  
 Liquidity has worsened. (1)  
 Accept ratios to indicate decrease [max 3]

**[Total: 17]**

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6 (a)

Caster and Wheel  
Trading, Profit and Loss and Appropriation Account  
for the year ended 30 September 2007 (1)

	\$		\$	
Opening stock		10 300 (1)	Sales	227 300 (1)
Purchases 119 600 (1) + 1620 (1)		<u>121 220</u>		
		131 520		
Closing stock		<u>9 900 (1)</u>		
Cost of goods sold		121 620		
Gross profit c/d		<u>105 680</u>		
		<u>227 300</u>		<u>227 300</u>
Wages and salaries (34 380 (1) + 3530 (1))		37 910	Gross profit b/d	105 680 (1)
Rent, rates and insurance (17 660 (1) – 1120 (1))		16 540		
General expenses		21 350 (1)		
Provision for depreciation – fixtures and fittings (20% × 21 500)		4 300 (1)		
Provision for doubtful debts (3% × 18 500)		555 (2)		
Net profit c/d		<u>25 025</u>		
		<u>105 680</u>		<u>105 680</u>
Share of profit			Net profit b/d	25 025 (1 of)
– Caster 15 015 (1 of)				
– Wheel 10 010 (1 of)		<u>25 025</u>		
		<u>25 025</u>		<u>25 025</u>

Accept alternative layout

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(b)

Caster and Wheel  
Balance Sheet as at 30 September 2007

	Cost	Depr'n	NBV		Caster	Wheel
<u>Fixed assets</u>				Capital	33 000 (1)	22 000 (1) 55 000
Land and buildings	52 100	---	52 100 (1)	Current account		
Fixtures and fittings	<u>21 500</u>	<u>17 200 (1)</u>	<u>4 300 (1 of)</u>	Opening balance	14 300	12 600
	73 600	17 200	56 400	Share of profit	<u>15 015 (1 of)</u>	<u>10 010 (1 of)</u>
					29 315	22 610
<u>Current assets</u>				Drawings	<u>17 130 (1)</u>	<u>16 240 (1)</u>
Stock		9 900 (1)			12 185 (1 of)	6 370 (1 of)
Debtors	18 500			<u>Current liabilities</u>		<u>18 555</u>
Prov'n for doubtful debts	<u>555</u>	17 945 (1)		Creditors	10 760 (1)	73 555
Cash at bank		2 480 (1)		Accrued wages and salaries	<u>3 530 (1)</u>	
Prepaid Insurance		<u>1 120 (1)</u>	31 445			14 290
			<u>87 845</u>			<u>87 845</u>

Accept alternative layout

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[Total: 35]