UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

7110 PRINCIPLES OF ACCOUNTS

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

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UNIVERSITY of CAMBRIDGE
International Examinations

1

Books of Christos

Michelle Account

July 1	Balance b/d	200 **(1)**	July 16	Sales returns	8 **(1)**
July 7	Sales	150 **(1)**	July 31	Bank	195 **(1)**
			July 31	Discount Allowed	5 **(1)**
			July 31	Balance c/d	142
		350			350
1 Aug	Balance b/d	142 **(1)**			

[6]

(b) Sales returns journal **(1)** [1]

(c) Christos – Trial Balance at 31 July 2011

	$	$
Capital		5 900**(2of)**
Drawings	8 000	
Office furniture	5 000	
Provision for depreciation on office furniture		3 200
Inventory	4 150	
Bank overdraft		250
Trade payables		2 950
Sundry expenses	10 600	
Purchases	32 400	
Provision for doubtful debts		350
Revenue (sales)		53 750
Trade receivables	6 250	
	66 400 **(2)**	66 400 **(2)**

[6]

(d) Trade receivables **(1)** [1]

(e)	**Trial balance**	**Balance sheet**
	Proves arithmetic accuracy of double entry equation	Proves agreement of the balance sheet
	Includes all account balances	Includes only assets and liabilities
	Recorded as debit and credit balances and includes revenue items	Recorded as assets and liabilities after revenue accounts prepared
	Recorded in any order	Recorded in defined categories e.g. fixed assets
	Contains only exact balances	Contains net figures e.g. book value of fixed assets of debtors after provisions

(2) marks x 2 differences [4]

[Total: 18]

2 **(a)** Credit note **(1)** [1]

(b) Error of commission **(1)** [1]

(c)

			Dr $	Cr $	
(i)	10 April	M.H Supplies Ltd	180		**(1)**
		Suspense		180	**(1)**
(ii)	20 April	M.H Supplies	1200		**(1)**
		M.Hardware Ltd.		1200	**(1)**
(iii)	23 April	Suspense	66		**(1)**
		M.H Supplies Ltd		66	**(1)**

[6]

(d)

Suspense account

	$		$
Balance/difference	114 **(2)**	M.H Supplies Ltd	180 **(1)**
M.H Supplies	66 **(1)**		
	180		180

[4]

(e)

M.H Supplies Ltd adjusted balance at 31 August 2011

			$	
Original balance at 30 April			466 Dr	
Plus	Trade discount error	180		**(1of)**
	Transaction posted to M.Hardware Ltd	1200		**(1)**
			1380	
			1846	
Less	Error in cash discount posting		66	**(1of)**
Corrected balance			1780	**(1of)**

[4]

(f) Quick processing.
Accurate.
Automatic updating of balances.
Large volume of data can be processed.
Electronic storage uses less space.
Security of data may be easier.
(2) x 2 points [4]

[Total: 20]

3 **(a)** Accumulated fund:

Assets

	$	
Subscriptions in arrears	270	**(1)**
Inventory of refreshments	2200	
Prepaid operating expenses	100	
Equipment	3200	
Bank	105	**(1)**
	5875	**(1)**
Liabilities		
Subscriptions in advance	175	**(1)**
Accumulated fund	5700	**(2) or (1)OF**

[6]

(b) Sandbury Sports Club

Refreshment Trading Account for the year ended 31 October 2011

	$	$
Sales of refreshments		25 000 **(1)**
Opening inventory	2 200	
Purchases	19 000	
	21 200	
Closing inventory	700 **(1)**	
Cost of sales		20 500 **(1)**
Gross profit		4 500 **(1)**

[4]

(c) Sandbury Sports Club

Income and Expenditure Account for the year ended 31 October 2011

	$	$
Income		
Subscriptions (3200 + 175 + 90)		3465 **(2)**
Profit on refreshments		4500 **(1of)**
		7965
Less		
Expenditure		
Bad debts	120 **(2)**	
Rent and rates	1200 **(1)**	
Operating expenses	4100	
(3750 + 100 **(1)** – 250 **(1)**)		
Depreciation on equipment	1400 **(1)**	
		6820
Surplus		1145 **(1)**

[10]

(d) **(i)** Current liabilities **(1)**

They are creditors of the club for services to be provided in the future **(1)**

(ii) Non-current assets **(1)**

It is capital expenditure **(1)**

Used for more than one accounting period

[4]

[Total: 24]

4 **(a)** **(i)**

	$
Opening inventory	18 000
Purchases	178 000 **(1 of)**
	196 000
Closing inventory	36 000
Cost of sales	160 000 **(2)**

[3]

(ii)

Gross profit	$160 000 x 25% = 40 000	**(1)**
Net profit	$200 000 x 6% = 12 000	**(1)**
Expenses	28 000	**(1)**

[3]

(b) **(i)** Current assets / Liabilities due in less than one year = 60 000 **(1)** / 50 000 **(1)** = 1.2:1 **(1)**

[3]

(ii) Current assets - Inventory / Liabilities due in less than one year = 24 000 **(1)** / 50 000 **(1)** = 0.5:1 **(1)**

[3]

(c) The quick ratio (acid test) excludes inventory **(1)**

The inventory may be difficult or take a long time to sell.
Inventory may deteriorate or become obsolete.
Inventory is two stages away from cash.
Debtors is one stage away from cash.
Only liquid assets are included.
(2) x 1 point

[3]

(d) Invest more capital.
Reduce drawings.
Reduce costs/expenses.
Sell surplus non-current assets.
Raise a loan.
Offer cash discount to trade receivables to speed up receipts.
Sell for cash.

(1) x 3 points

[3]

[Total: 18]

5 Donney and Raj

Income Statement for the year ended 30 September 2011

	$	$	
Revenue (sales)		365 000	
Less Returns		9 200	
		355 800	**(1)**
Inventory at 1 October 2009	53 500		
Purchases	173 000		**(1)**
Plus Carriage inwards	4 950		**(1)**
	231 450		
Less Returns	5 500		**(1)**
	225 950		
Less Inventory at 30 September 2010	61 450		**(1)**
Cost of sales		164 500	
Gross profit		191 300	**(1)**
Less			
Carriage outwards	11 550		**(1)**
Administration expenses (25 750 – 630)	25 120		**(2)**
Wages and salaries (66 700 + 2 700)	69 400		**(2)**
Provisions for depreciation-			
Motor vehicles	10 000		**(1)**
Fixtures and fittings	7 500		**(1)**
Sundry expenses	10 250		**(1)**
Advertising	23 480		**(1)**
Finance costs (loan interest)(2 000 + 2 000)	4 000		**(2)**
Bad debt	2 500		**(1)**
Increase in provision for doubtful debts	400		**(1)**
		164 200	
Profit for the year		27 100	
Less Appropriations:			
Interest on capital:			
Donney	6 000		
Raj	4 000		
		10 000	**(1)**
		17 100	
Salary Raj		12 000	**(1)**
		5 100	
Share of profit:			
Donney	3 400		
Raj	1 700		
		5 100	**(2of)**

[23]

Balance Sheet at 30 September 2011

	$ Cost	$ Accumulated Depreciation	$ NBV	
Non-current assets				
Property	170 000		170 000	
Motor vehicles	75 000	35 000	40 000	(1)OF
Fixtures and fittings	50 000	31 500	18 500	(1)OF
	295 000	66 500	228 500	
Current assets				
Inventory		61 450		(1)
Trade receivables	60 000			
Less: provision for doubtful debts	(2 400)			
		57 600		(2)
Other receivables (Prepaid admin expenses)		630		(1)
		119 680		
Less:				
Current liabilities				
Trade payables		(30 500)		(1)
Other payables: (accrued Wages and salaries)		(2 700)		(1)
(loan interest)		(2 000)		(1)
Bank overdraft		(4 380)		(1)
		(39 580)		
Net current assets			80 100	(1)
			308 600	
Less				
Non-current liabilities				
8% loan repayable 31 December 2025			(50 000)	(1)
			258 600	
Financed by:				
Capital accounts:				
Donney		150 000		
Raj		100 000		
			250 000	(1)
Current accounts:				
Donney		9 400Cr		
Raj		800Dr		
			8 600	(4)
			258 600	

[17]

Suitable alternative layouts accepted

Current accounts

	Donney	Raj		Donney	Raj
	$	$		$	$
Balance b/d		3 500	Balance b/d	15 000	
Drawings	15 000	15 000**(1)**	Interest on capital	6 000	4 000 **(1of)**
			Salary		12 000 **(1)**
			Share of profit	3 400	1 700 **(1of)**
Balance c/d	9 400		Balance c/d		800
	24 400	18 500		24 400	18 500

[Total: 40 marks]