

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

7110 PRINCIPLES OF ACCOUNTS

7110/22

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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1 (a)

		Savvas					
		\$			\$		
Sept 10	Purchase returns	204	(2)	Sept 1	Balance b/d	1500	(1)
Sept 25	Bank	1440	(1)	Sept 8	Purchases	680	(1)
Sept 25	Discount received	60	(1)				
Sept 30	Balance c/d	<u>476</u>				<u>2180</u>	
		<u>2180</u>		Oct 1	Balance b/d	<u>476</u>	(1)OF

[7]

- (b) Enables Akmal to make a profit
 Encourages sales
 Encourages buying in bulk
 Encourages loyal / regular customers
 1 point = (2–0) marks

[2]

(c) Credit note (1)

[1]

(d)

	Account	Sales Ledger	Purchase Ledger	Nominal/ General Ledger
(i)	Sales			✓
(ii)	Savvas (Supplier)		✓ (1)	
(iii)	Heat & light			✓ (1)
(v)	Capital			✓ (1)
(vi)	G.R.G Ltd (Customer)	✓ (1)		

[4]

(e)

		Assets	Liabilities	Capital
(ii)	Goods costing \$800, sold on credit for \$1 130.	+\$330 (1)	No effect (1)	+\$330 (1)
(iii)	Paid creditor \$500 by cheque, less 3% cash discount.	-\$485 (1)	-\$500 (1)	+\$15 (1)

[6]

[Total: 20]

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2 (a)

Sales Ledger Control Account			
	\$		\$
Balance b/d	25 000 (1)	Receipts/Bank/Cash	75 000 (1)
Sales (credit sales)	<u>80 000 (1)</u>	Balance c/d	<u>30 000 (1)</u>
	<u>105 000</u>		<u>105 000</u>

[4]

(b) **Two points × 2 marks**

- Reduce the possibility of fraud / prevents fraud. **(2–0)**
- Checking the arithmetical accuracy. **(2–0)**
- To locate or prevent errors. **(2–0)**
- Calculate the total value of trade receivables (debtors). **(2–0)**
- To calculate trade receivables (debtors) used in trial balance / and / or final accounts. **(2–0)**
- Measures staff efficiency. **(2–0)** [max 4]

(c)

	Dr		Cr
	\$		\$
Bank/cash	500		(1)
Bad debts	2 000		(1)
Keira		2 500	(1)

[3]

(d) Calculation of provision for doubtful debts

	\$	Age of debt	%	Value (\$)
George	11 500	One month	2	230 (1)
Ranjula	9 500	Two months	2	190 (1)
Harry	5 000	Four months	10	500 (1)
Trupti	<u>1 500</u>	Eight months	20	<u>300 (1)</u>
	<u>27 500</u>			<u>1 220</u>

[4]

(e)

Provision for doubtful debts account					
		2011	\$		
Sept 30	Income statement	80	(1) OF	Oct 1	Balance b/d
Sept 20	Balance c/d	1 220			1 300 (1)
		1 300			1 300
				2011	
				Oct 1	Balance b/d
					1 220 (1) OF

[3]

(f) Prudence (1)

- Accruals/matching (1)
- (1) × 2 points** [2]

[Total: 20]

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3 (a)

Paulton Ltd		
Profit and Loss Appropriation Account for the year ended 30 April 2011		
	\$	\$
Profit for the year		40 000
Less		
Transfer to general reserve	20 000 (1)	
Dividends:		
Preference	4 000 (1)	
Ordinary		
Interim	1 000 (1)	
Proposed	<u>2 500 (1)</u>	
		<u>27 500</u>
Retained profit for the year (reasonable narrative)		12 500 (1)
Retained profit brought forward (ditto)		<u>8 000 (1)</u>
Retained profit carried forward (1*)		<u>20 500 (1)</u>

[8]

(b) Authorised share capital is the maximum number of shares which a company can issue. The share capital is shares which can be sold to shareholders.

[1]

The paid up share capital is shares which have been issued and paid for. The shares that have been issued

[1]

(c) A reserve is undistributed profits. (2/0)
Profits retained in the business. (2/0)

[2]

(d) To retain cash / money / profit
To increase working capital.
To fund growth in the business and its assets.
To reinvest in the business.
To keep for emergencies.
To cover / pay future dividends.
(2) marks × 1 point

[2]

(e) 1. Money measurement (1)
Can only record items which can be expressed in monetary terms(2/0)
Difficult to value/measure (2/0)
Will be lost if staff leave (2/0)
(2) marks × 1 point

[3]

2. Consistency (1)
Should apply the same method from year to year (2/0)
Can distort the profit comparison from year to year (2/0)
May result in inaccurate net book values (2/0)
(2) marks × 1 point

[3]

[Total: 20]

4 (a) Calculation any format acceptable, 56 000 = 3, 64 000 = 2.

(i)

	\$	
Opening inventory	6 000	(1)
Purchases	<u>58 000</u>	(1)
	64 000	
Closing inventory	<u>8 000</u>	(1)
Cost of sales	56 000	

[3]

(ii)

$$\frac{\text{Cost of sales}}{\text{Average inventory}} = \frac{56\,000}{(6\,000 + 8\,000/2)} = 8 \text{ times} \quad \mathbf{1(o/f)}$$

= 700 (1)

[3]

(b) (i)

$$\frac{\text{Gross profit} \times 100}{\text{Sales}} = \frac{24\,000 \mathbf{(1o/f)} \times 100}{80\,000 \mathbf{(1)}} = 30\% \quad \mathbf{(1o/f)}$$

[3]

(ii) Increase in purchasing costs / increase in cost of sales (1)

Selling at lower prices (1)

Poor stock control / damage / stolen / obsolete (1)

Allow acceptable alternatives

Accept own figure comments to match with b(i) above

(1) Per point × 2

[2]

(c) (i)

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{24\,000 \mathbf{(1)}}{16\,000 \mathbf{(1)}} = 1.5 : 1 \quad \mathbf{(1)}$$

[3]

(d)

Action	Working capital (Increase, decrease, unchanged)	Amount of change (\$)
2. Sale of inventory (cost \$4 000) for \$3 200 cash.	Decrease (1)	\$800 (1)
3. Purchase non current assets \$8 000 and stock \$2 000, on credit.	Decrease (1)	\$8 000 (1)
4. Pay accounts payable, \$5 000, after taking cash discount of 4%.	Increase (1)	\$200 (1)

[6]

[Total: 20]

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5 (a)

Jasmine			
Income Statement for year ended 30 September 2011			
	\$	\$	
Revenue (sales)		210 000	
Returns		<u>(8 120)</u>	
		201 880	(1)
Inventory 1 October 2010	9 430		
Purchases	113 500		(1)
Carriage in	<u>500</u>		(1)
	123 430		
Returns	<u>(3 400)</u>		(1)
	120 030		
Inventory 30 Sept 2011	<u>(11 780)</u>		(1)
Cost of sales		<u>108 250</u>	(1 of) no aliens
Gross profit		93 630	
Add other income			
Discount received	1 750		(1)
Profit on disposal	200		(1)
Dec Provision Doubtful Debts	<u>90</u>		(2–0)
		<u>2 040</u>	
		95 670	
Less Overheads			
Carriage out	1 200		(1)
Insurance (5 600 – 1 120)	4 480		(1)
Light and heat (6 300 + 375)	6 675		(1)
Wages	27 000		
Advertising	10 600		
General expenses	15 850		(1)
Building repairs	4 100		(2–0)
Depreciation:			
Fixtures	3 600		(2–0)
Computers	2 520		(2–0)
Loan interest	<u>700</u>		(2–0)
		<u>(76 725)</u>	
Profit for the year		<u>18 945</u>	(1 of) no aliens, labelled

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(b)

	Balance Sheet at 30 September 2011		
	\$	\$	\$
	Cost	Accumulated Depreciation	NBV
<u>Non current assets</u>			
Land and buildings	16 000		116 000 (1)
Fixtures and fittings	18 000	10 800	7 200 (1of) (< 10 800)
Computer equipment	<u>12 000</u>	<u>6 120</u>	<u>5 880</u> (1of) (< 8 400)
	<u>146 000</u>	<u>16 920</u>	129 080
<u>Current assets</u>			
Inventory		11 780	(1)
Trade receivables	8 200		
Less PDD (<500)	<u>(410)</u>		(1of)
		7 790	(1of) if net
Other receivables		<u>120</u>	(1)
		20 690	
<u>Current liabilities</u>			
Trade payables	26 750 (1)		
Other payables (375 + 700)	1 075		
	(1) (1of)		
Bank overdraft	<u>18 500 (1)</u>		
		<u>(46 325)</u>	
<u>Net current liabilities</u>			<u>(25 635) (1of)</u>
(accept working capital / net current assets)			103 445
<u>Non current liabilities</u>			
7% Bank loan (must state loan)			<u>(20 000) (1)</u>
			83 445
<u>Financed by:</u>			
Capital at 1 October 2010			80 000 (1)
Add profit for the year			<u>18 945 (1of)</u>
			98 945
Less drawings			<u>(15 500) (1)</u>
			<u>83 445</u>

[16]

[Total: 40]