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**PRINCIPLES OF ACCOUNTS**

**7110/22**

Paper 2 Structured

**October/November 2016**

MARK SCHEME

Maximum Mark: 120

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**Published**

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)

Fabio  
Trial Balance at 30 June 2016

	Debit		Credit	
	\$		\$	
Motor vehicle	9 500			
Trade payables			8 500	
Inventory	4 850			
Revenue			22 000	
Purchases	14 400			
Bank loan			2 000	
Bank overdraft			1 630	
Trade receivables	7 250			
Capital			3 000	
Suspense (1)	<u>1 130</u>	(1)of	_____	
	<u>37 130</u>	(1)	<u>37 130</u>	(1)
<b>NB:(of) can be Dr or Cr.</b>				

[4]

(b)

General journal

	Debit		Credit	
	\$		\$	
Suspense	270	(1)		
Revenue (Sales)			270	(1)
Purchases	1 400	(1)		
Suspense			1 400	(1)

**NB: accept suspense account netted to 1130cr = (2)**

[4]

(c)

Transaction	Book of prime entry	Account to be debited	Account to be credited	Effect on capital \$
Sold goods costing \$900 on credit to Noah for the list price of \$1500.	<i>Sales Journal</i>	<i>Noah</i>	<i>Revenue (Sales)</i>	+\$600
Noah returned goods with a list price of \$100	Sales returns/ returns in journal/day book (1)	Sales returns/returns inwards (1)	Noah (1)	-\$40 (1)
Paid Sophie a cheque for \$610.	Cash book (1)	Sophie (1)	Bank (1)	No effect (1)
A debt, \$230, owed by Zain was written off.	General journal/ Journal/ Nominal journal (1)	Bad debts/irrecoverable debts (1)	Zain (1)	-\$230 (1)

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[Total:20]

2 (a)

Rent Receivable Account

Date	Details	\$		Date	Details	\$	
2016				2015			
Jan 31	Bank	700	(1)	Oct 1	Balance b/d	2 500	
				Dec 31	Bank	6 700	(1)
Sept 30	Income statement/ Profit and loss/ IS/ P&L	12 000	(1)	2016			
				April 30	Bank	3 100	(1)
		_____		Sept 30	Balance c/d	<u>400</u>	
		<u>12 700</u>				<u>12 700</u>	
Oct 1	Balance b/d	400	(1)of				

[5]

(b)

	\$		\$		\$	
Profit for the year					24 000	
	Increase		Decrease			
Purchases of \$500 had not been recorded in the books.			500	(1)	(500)	
Goods, \$800, had been counted twice in the closing inventory.			800	(1)	(800)	
No adjustment had been made for prepaid insurance \$950.	950	(1)			950	
Discount allowed \$1600 had been added to gross profit.			3 200	(1)	(3 200)	
Equipment costing \$15 000 (accumulated depreciation \$6600), had been depreciated by 20% on cost. The reducing (diminishing) balance method should have been used at a rate of 20%.	1 320 or 3 000	(1)			1 320	
Commission receivable, \$400, had not been included in the draft income statement.	400	(1)			400	
	2 670		4 500			
Revised profit for the year					<u>22 170</u>	(2) 1of

[8]

(c) These arise from normal trading activities/day to day activities/selling activities/revenue earned/sale of goods (must go beyond revenue receipts), such as sales or commission (1). They are entered in the income statement. (1)

[2]

(d)

Transaction	Revenue		Capital	
	Expenditure	Receipt	Expenditure	Receipt
Sold office computer				√
Received interest on deposit account		√ (1)		
Took out a 5 year bank loan				√ (1)
Paid property insurance	√ (1)			
Bought motor vehicle to deliver goods			√ (1)	
Commission received		√ (1)		

[5]

[Total: 20]

3 (a)

Cam Limited  
Statement of Changes in Equity for the year ended 30 September 2016

	Share Capital \$		General Reserve \$		Retained Profits \$		Total \$	
Balance at 1 October 2015	70 000		40 000		92 000		202 000	
Share issue	30 000	(1)					30 000	
Profit for the year					75 000	(1)	75 000	
Transfer to general reserve			80 000	(1)	(80 000)	(1)	–	
Dividend paid(interim)					(7 000)	(1)	(7 000)	
Dividend paid (final)	_____		_____		<u>(20 000)</u>	<u>(1)</u>	<u>(20 000)</u>	
Balance at 30 September 2016	100 000	(1)	120 000		60 000		280 000	(1)

[8]

(b)

Extract from the Statement of Financial Position extract at 30 September 2016

Equity and Reserves	\$	\$	
Ordinary shares		<u>100 000</u>	(1)
Reserves			
General reserve	120 000		(1of)
Retained profit	<u>60 000</u>		(1of)
		<u>180 000</u>	
Total equity and shares/shareholders' funds/total equity		280 000	(1) w+of
Non-current liabilities			
Debentures		<u>50 000</u>	(1) (Not deducted)
		<u>330 000</u>	(1) of

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- (c) Retains cash in the business/maintains liquidity (1)  
 Improves working capital (1)  
 Funds retained for major expenditure such as purchasing non-current assets/expansion of business. (1)  
 Profits 'ploughed back' for business to grow. (1)  
 Used for future dividends/maintains dividends in times of loss/when profits are low (1)  
 For use in emergencies/contingencies/if company has financial difficulties (1)  
**(Accept any other reasonable points)**

**Max [2]**

(d)

Ordinary shares	Debentures
Shareholders are the owners of the business (1)	Debenture holders make a non-current loan of capital to the business/are creditors (1)
Receive dividend (1)	Receive interest/interest is fixed (1)
Dividend is not guaranteed/dividend is variable (not fixed) (1)	Interest on the loan must be paid (1)
Dividend is an appropriation of profit (1)	Interest recorded in income statement as an expense (1)
In liquidation paid after debentures (1)	In liquidation paid before ordinary shares (1)
Have voting rights (1)	Do not have voting rights (1)
Can attend AGM (1)	Cannot attend AGM (1)

**Max [4]**

**[Total:20]**

4 (a)

	Workings	Answer		Comparative figures for previous year
Revenue for the year	$168\,000 \text{ (1)} \times \frac{100}{75}$	\$224 000	(1)	\$200 000
Percentage mark up	$\frac{56\,000 \text{ (1)}}{168\,000} \times 100$	33.33% 33%	(1of) or (1of)	27%
Expenses for the year	GP 56 000(1of) – NP 11 200 (1)  Or 20%(1) of 224 000 (1of)	\$44 800	(1of)	36 000
Return on capital employed (ROCE)	$\frac{11\,200 \text{ (1)}}{60\,000 + 20\,000 \text{ (1)}} \times 100$	14% (1of) (if one correct component)		21%

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**(b) Own figure rule applies**

There has been an increase in sales revenue in the current year (1) this may be due to improved marketing/advertising/lower cost of sales of the business (1)

The percentage mark-up has increased in the current year (1) this may be due to increased prices (1) or decreased cost of sales/decreased purchases due to trade discounts (1).

The return on capital employed (ROCE) has decreased in the current year (1) this may be due to proportionately higher expenses (1) or higher capital employed for the year, or due to reduction in profits (1).

Expenses have increased/have more expenses (1) due to lack of control (1)

Max [6]



(c)

	Principle or concept
Revalue his premises recording the increase in market value as a profit	<i>Historic cost</i>
Include a value for business reputation in his income statement	Money measurement <b>(1)</b>
Record his drawings in the income statement	Business entity / accounting entity <b>(1)</b>
To stop charging depreciation on non-current assets for the year	Consistency <b>(1)</b>
Not to provide for trade debts which are probably irrecoverable.	Prudence <b>(1)</b>

**[4]**

**[Total:20]**

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5 (a)

Project Manufacturing  
Manufacturing Account for the year ended 30 September 2016

	\$	\$	
Raw materials inventory 1 October 2015	8 700		
Purchases of raw material	<u>106 000</u>	(1)	
	114 700		
Raw materials inventory 30 September 2016	<u>(9 750)</u>		
Cost of raw materials consumed		104	(1)
		950	
Factory wages		73 000	(1)
Royalties		<u>8 000</u>	(1)
Prime cost (1)		185	(1) of
		950	
Factory overheads			
Insurance	4 000		(1)
Rent	12 300		(1)
Premises maintenance	6 000		(1)
Managers' salaries	29 000		(1)
Depreciation – machinery	<u>13 000</u>	<u>64 900</u>	(1 of)
		250 850	
Work in progress			
At 1 October 2015	19 000		
At 30 September 2016	<u>(17 500)</u>		
		<u>1 450</u>	(1)
Cost of production/Factory cost/			
Cost of manufacturing/Manufacturing cost (1)		<u><u>252 300</u></u>	(1) of

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(b)

Project Manufacturing  
Income Statement for the year ended 30 September 2016.

	\$	\$	
Revenue		380 000	
Less			
Inventory of finished goods 1 October 2015	34 100		
Cost of production	252 300		(1) of
Purchases	<u>36 000</u>		(1)
	<u>322 400</u>		
Inventory of finished goods 30 September 2016	<u>(40 400)</u>		
Cost of sales		<u>(282 000)</u>	(1) of
Gross profit		98 000	(1) of
Commission received		<u>3 000</u>	(1)
		101 000	
Less expenses:			
Insurance	1 000		(1)
Rent	4 100		(1)
Premises maintenance	4 400		(1)
Office wages and salaries	50 000		(1)
Advertising (15 400 – 1 200)	10 250		(1)
Administration and finance costs (9 500+750)	10 250		(1)
Provision for doubtful debts			(1)
Depreciation – office fixtures			(1)
		<u>(86 050)</u>	
Profit for the year		<u>14 950</u>	(1) of

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(c)

Project Manufacturing  
Statement of Financial Position at 30 September 2016.

Non-current assets	Cost	Accumulated depreciation	Net book value	
	\$	\$	\$	
Machinery	115 000	63 000	52 000	(1) of (NBV < 65 000)
Office fixtures	<u>14 000</u>	<u>7 600</u>	<u>6 400</u>	(1) of (NBV < 7 800)
	<u>129 000</u>	<u>70 600</u>	58 400	
Current assets				
Inventory				
Raw materials		9 750		
Work in progress		17 550		
Finished goods		<u>40 400</u>		
		67 700		(1) All three
Trade receivables	32 000 (1)			
Less Provision for doubtful debts	<u>(1 600)</u>			
		30 400		(1) of
Other receivables		<u>1 200</u>		(1)
			<u>99 300</u>	
			<u>157 700</u>	
Financed by				
Capital				
Profit for the year		140 000		
		<u>14 950</u>		(1) of
		<u>157 700</u>		
Drawings		<u>(39 800)</u>		(1)
			<u>157 700</u>	
Financed by:				
Capital				
Profit for the year		140 000		
		<u>14 950</u>		(1) of
		154 950		
Drawings		<u>(39 800)</u>		(1)
			115 150	
Current liabilities				
Trade payables		18 700		(1)
Other payables		750		(1)
Bank		<u>23 100</u>		(1)
			<u>42 550</u>	
			<u>157 700</u>	

[11]

[Total 40 marks]