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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/02**

Paper 2 **For Examination from 2010**

SPECIMEN MARK SCHEME

2 hours

MAXIMUM MARK: xx

This document consists of **8** printed pages.

UNIVERSITY of CAMBRIDGE
International Examinations

[Turn over

1 **(a)** Cheque **(1)**
Invoice **(1)** [2]

(b) Cash discount **(1)**
OR
Settlement discount **(1)**
OR
Discount received **(1)** [1]

(c) Cash book **(1)**
Purchases journal **(1)** [2]

(d) Current liabilities **(1)** [1]

(e) Improved accuracy **(1)**
Faster to process transactions **(1)**
Ability to process high volumes of information **(1)**
Automatic performance of reconciliations **(1)**
Ease of storing large amounts of data **(1)**
Security of data on computer records **(1)** [max 2]

[Total: 8]

2 **(a)**

Sally Major
Dr Cash Book (bank columns) Cr

2009		$		2009		$	
31 July	Balance b/d	619		31 July	Bank charges	170	**(1)**
31 July	Dividends	80	**(1)**	31 July	Balance c/d	2034	
31 July	Cash (contra)	5	**(1)**				
31 July	Bank loan	1500	**(1)**				
		2204				2204	
1 Aug	Balance b/d	2034	**(1of)**				

[5]

(b)

Sally Major
Bank Reconciliation Statement at 31 July 2006

	$	
Balance as per cash book	2034	**(1of)**
Add: un-presented cheque	710	**(1)**
	2744	
Less: un-credited deposit	1150	**(1)**
Balance as per bank statement	1594	**(1)**

Allow alternative format [4]

[Total: 9]

3 (a)

Total Trade Receivables (Debtors) account

	$		$		
Revenue (Sales)	6020	Bank	4460	**(1)**	Credit sales
		Bad debt	140	**(1)**	6020 **(1)** + cash
		Balance c/d	1420	**(1)**	sales 790 **(1)** =
	6020		6020		6810

Accept alternative presentation [5]

(b)

Total Trade Payables (Creditors) account

	$			$		
Bank	1900	**(1)**	Purchases	3600	**(1)**	*Accept*
Discount received	100	**(1)**				*alternative*
Balance c/d	1600					*presentation*
	3600			3600		

[3]

(c)

Trading account for the month ended 31 July 2006

	$			$		
Purchases	3600	**(1)**	Revenue (Sales)	6810	**(1of)**	*Accept*
Less: closing inventory (stock)	240	**(1)**				*alternative presentation*
	3360					
Gross profit	3450					
	6810			6810		

[3]

(d)

Jenny Palmer
Journal

	Dr. $	Cr. $
Wages and salaries	690 **(2)**	
Bank		509 **(2)**
Tax authorities (creditor)		181 **(2)**

Alternative suggested answer [6]

	Dr. $	Cr. $
Wages and salaries	645 **(2)**	
Bank		509 **(2)**
Tax authorities (creditor)		136 **(2)**
Wages and salaries	45**(1)**	
Tax authorities		45 **(1)**

Working: 120 hours × $5 = 600
6 hours × $7.50 = 45
645
Less Tax/Social Security (136)
Net wages 509

(e)

Jenny Palmer
Profit and Loss Account for the month ended 31 July 2006

	$			$	
Wages and salaries	690	**(1of)**	Gross profit	3450	**(1of)**
Bad debt	140	**(1)**	Discount		
Sundry expenses	1650	**(1)**	received	100	**(1)**
Net profit	1070				
	3550			3550	

Accept vertical presentation [5]

(f)

Jenny Palmer
Balance Sheet at 31 July 2006

	$	$			$		$	
Fixed assets				Capital			2000	**(1)**
equipment		1200	**(1)**	Net profit			1070	**(1of)**
							3070	
				Less drawings			550	**(1)**
Current assets							2520	
Stock	240			Current liabilities				
Debtors	1420			Trade creditors	1600	**(1of)**		
Bank	1370			Creditor – tax				
Cash	71	3101	**(2)**	authorities	181	**(1of)**	1781	
		4301					4301	

Accept vertical presentation [8]

[Total: 30]

4 (a) Jack Lightbourne

		Workings	
(i)	Gross profit/sales	$\frac{87300}{174600}$ [174 600 – (6350 + 89 150 – 8200) = 87 300]	50% **(2)**
(ii)	Net profit/sales	$\frac{17460}{174600}$ [87 300 (of) – 69 840]	10% **(2)**
(iii)	Rate of stock turnover	$\frac{(6350+8200)/2}{6350+89150-8200} = \frac{7275}{87300} \times 365$ or $\frac{6350+89150-8200}{(6350+8200)/2} = \frac{87300}{7275}$	30.4 days **(2)** or 12 times **(2)**
(iv)	Working capital (current) ratio	24 600 : 16 400	1.5 : 1 **(2)**
(v)	Quick ratio (acid test)	16 400 : 16 400 [24 600 – 8 200]	1 : 1 **(2)**

[10]

(b) Increase the sales price for his goods **(1)**
Buy goods more cheaply from suppliers **(1)**
Reduce expenses **(1)** [3]

(c) (i) Stock – lower of cost and net realisable value **(1)**
Trade debtors – expected collectible amount **(1)** [2]

(ii) Prudence **(1)**

The correct valuation base ensures profit is not overstated **(1)**
and assets are not overstated **(1)**
OR
True and fair view is shown **(1)** [max 3]

(d) Accountants work with generally accepted rules such as accounting standards **(2)**
Accountants are expected by profession and public to produce reliable financial information **(2)**
Professional standards are more important than individual organisations **(2)**
Preparing accounts for the temporary benefit of one individual or organisation, even an employer, is against these rules and training **(2)**
An accountant could be penalised legally or professionally for not following agreed practice **(2)** [max 4]

[Total: 22]

5 **(a)** Authorised share capital is the amount a company may issue whereas called-up share capital is issued **(2)** [2]

(b) Preference shares receive a fixed dividend: ordinary share dividends can vary **(1)**

Preference share dividend is allocated out of profit before ordinary share dividend **(1)**

Preference shareholders do not usually have a vote but ordinary shareholders do **(1)**

Preference shareholders have priority rights in liquidation before ordinary shareholders **(1)**
[max 2]

(c) A general reserve separates retained profits which shareholders might expect to be distributed from those which are likely to be kept long term in the company. **(1)**
OR
By transferring funds to a general reserve the company indicates retained profits are being reinvested long term. **(1)** [max 1]

(d) Bother partnerships and companies may have fixed capital **(1)**
Partners also have current accounts within the capital structure **(1)**
The capital owned by each partner is shown on a partnership balance sheet but company capital is not divided between each shareholder **(2)**
Retained profits and reserves are included in the capital and reserves of a company but not a partnership **(2)**
Different types of ownership are shown in the capital structure of a company but not a partnership **(2)** [max 4]

(e) They improve comparability between financial statements internationally **(1)**
Fewer rules make accounts more understandable to an international audience **(1)**
Information is more reliable with fewer rules and practices to follow **(1)**
Reduces variability in accounting rules and practices internationally **(1)** [max 2]

[Total: 11]

(a)

Alison Brown
Manufacturing Account for the year ended 31 July 2009

	$		$	
Cost of material consumed				
Opening inventory (stock) of raw material	34 760	**(1)**		
Purchases of raw material	396 300	**(1)**		
Carriage of raw material	1 200	**(1)**		
	432 260			
Less Closing inventory (stock) of raw material	47 290	**(1)**	384 970	**(1)**
Direct wages (198 600 + 16 550)			215 150	**(1)**
Prime cost			600 120	**(1of)**
Add Factory overheads				
Factory manager's salary	18 600	**(1)**		
Sundry factory expenses	24 360	**(1)**		
Provision for depreciation of factory plant and machinery (96 000 – 42 000) × 25%	13 500	**(1)**	56 460	
Add decrease in work in progress			150	
Production cost of goods completed			656 730	**(1)**

Accept alternative presentation [11]

(b)

Alison Brown
Income Statement for the year ended 31 July 2009

	$		$		$	
Revenue (sales)					798 200	
Less sales returns					6 400	
					791 800	**(1)**
Less cost of sales						
Opening inventory (stock) of finished goods			8 300	**(1)**		
Production cost of goods completed			656 730	**(1of)**		
Purchases of finished goods	11 340	**(1)**				
Less drawings	960	**(1)**	10 380			
			675,140			
Less closing inventory (stock) of finished goods			9 200	**(1)**		
					666 210	
Gross profit					125 590	**(1of)**
Office salaries (43 330 – 1 860)			41 470	**(1)**		
Sundry office expenses			18 950	**(1)**		
Distribution costs			23 460	**(1)**		
Provision for depreciation Of office equipment (20% × 15 000) 3 000 (20% × 2 400 × $\frac{3}{12}$) 120			3 120	**(2)**		
Provision for doubtful debts (2% × 84 350)			1 687	**(1)**	88 687	
Net profit					36 903	

Accept any recognisable layout [13]

(c)

Alison Brown
Balance Sheet at 31 July 2009

	Cost	Depr'n to date		Book value	
Non-current (Fixed) assets	**$**	**$**		**$**	
Land and buildings	40 000	-		40 000	**(1)**
Factory plant and machinery	96 000	55 500	**(1of)**	40 500	
Office equipment	17 400	9 120	**(1of)**	8 280	
	153 400	64 620		88 780	
Current assets					
Inventory (Stock)					
Raw materials	47 290				
Work in progress	4 670				
Finished goods	9 200	61 160	**(1)**		
Trade receivables (Debtors)	84 350				
Less provision for doubtful debts	1 687	82 663	**(1of)**		
Other receivables (Prepayments)		1 860	**(1)**		
Cash equivalents (Bank)		2 050			
		147 733	**(1of)**		
Current liabilities					
Trade payables (Creditors)	64 160**(1)**				
Other payables (Accruals)	16 550**(1)**	80 710	**(1of)**		
Net current assets (Working capital)				67 023	**(1)**
				155 803	
Financed by					
Equity (Capital)					
Opening balance				132 160	**(1)**
Plus Profit for the year (Net profit)				36 903	**(1of)**
				169 063	
Less Drawings (12 300 + 960)				13 260	**(2)**
				155 803	**(1of)**

Accept any other recognisable layout [16]

[Total: 40]