



Cambridge O Level

ACCOUNTING

7707/21

Paper 2 Structured

May/June 2020

MARK SCHEME

Maximum Mark: 120

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & AS Level components, and some Cambridge O Level components.

This document consists of **18** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

| Question | Answer | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------------------|---|--------|--------------------|------------------------|--------|---------|----|----------------|--------------------|---------------|---------------|-------------|-----|-------------------|---------------|--------|----------------|----------------|-------|--|------------------|-----|-------|--------------------|-----|------------------------|-----|-------|--------------|--------------|-------|-------|--|----------|--|--------------------|-------|--|--|--|--|------------------------|-------|--|--|--|--|-------------|-------|--|--|--------|--|--|--------|---------------|-------------|-------|--|--|--|----------|
| 1(a) | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">10 542</td> <td>(2)CF/(1)OF</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">900</td> <td></td> <td>*</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">7 600</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">8 500</td> <td></td> <td></td> </tr> <tr> <td>Less Closing inventory</td> <td style="text-align: right;">970</td> <td style="text-align: right;">7 530</td> <td>(1)OF</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">3 012</td> <td></td> </tr> </table> <p>* mark for opening and closing inventory Any format acceptable</p> | | \$ | \$ | | Sales | | 10 542 | (2)CF/(1)OF | Cost of sales | | | | Opening inventory | 900 | | * | Purchases | 7 600 | | | | 8 500 | | | Less Closing inventory | 970 | 7 530 | (1)OF | Gross profit | | 3 012 | | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | \$ | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sales | | 10 542 | (2)CF/(1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of sales | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Opening inventory | 900 | | * | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases | 7 600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 8 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Closing inventory | 970 | 7 530 | (1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross profit | | 3 012 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1(b) | <p style="text-align: center;">ZED Sports Club Receipts and Payments Account for the year ended 29 February 2020</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 35%;">Details</th> <th style="width: 10%;">\$</th> <th style="width: 10%;">Date</th> <th style="width: 35%;">Details</th> <th style="width: 10%;">\$</th> </tr> </thead> <tbody> <tr> <td>2020 Feb 29</td> <td>Shop sales</td> <td style="text-align: right;">10 542</td> <td>2019 Mar 1</td> <td>Balance b/d</td> <td style="text-align: right;">845</td> </tr> <tr> <td></td> <td>Subscriptions</td> <td style="text-align: right;">11 400</td> <td>2020 Feb 29</td> <td>Shop purchases</td> <td style="text-align: right;">7 600</td> </tr> <tr> <td></td> <td>Competition fees</td> <td style="text-align: right;">915</td> <td></td> <td>Competition prizes</td> <td style="text-align: right;">390</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Fittings</td> <td style="text-align: right;">4 000</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Rent and insurance</td> <td style="text-align: right;">4 575</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Wages – shop assistant</td> <td style="text-align: right;">2 000</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;">3 447</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">22 857</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">22 857</td> </tr> <tr> <td>2020 Mar 1</td> <td>Balance b/d</td> <td style="text-align: right;">3 447</td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>(1) Dates</p> | Date | Details | \$ | Date | Details | \$ | 2020 Feb 29 | Shop sales | 10 542 | 2019 Mar 1 | Balance b/d | 845 | | Subscriptions | 11 400 | 2020 Feb 29 | Shop purchases | 7 600 | | Competition fees | 915 | | Competition prizes | 390 | | | | | Fittings | 4 000 | | | | | Rent and insurance | 4 575 | | | | | Wages – shop assistant | 2 000 | | | | | Balance c/d | 3 447 | | | 22 857 | | | 22 857 | 2020 Mar 1 | Balance b/d | 3 447 | | | | 8 |
| Date | Details | \$ | Date | Details | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 Feb 29 | Shop sales | 10 542 | 2019 Mar 1 | Balance b/d | 845 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Subscriptions | 11 400 | 2020 Feb 29 | Shop purchases | 7 600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Competition fees | 915 | | Competition prizes | 390 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Fittings | 4 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Rent and insurance | 4 575 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Wages – shop assistant | 2 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Balance c/d | 3 447 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 22 857 | | | 22 857 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 Mar 1 | Balance b/d | 3 447 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|-------|--------------|--------|----|--|---------------------------|--|--|-------|-----|---|-----|-----|--|--|------------|-----------|-----|------------|--|--|--|--|-------|--|--|--|--|--------------|-----|----------------------|--|--|-------|--------|--|----|--|----|--|----------------------|--|--|-------|--------|--|--|--|--------------|-----|--|--|--|-------|--|--|-----|-----|--|--|------------|-----------|-----|------------|--|---------------------------|--|--|-------|-----|----------|
| 1(c) | <p style="text-align: center;">ZED Sports Club Bank Reconciliation Statement at 29 February 2020</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: right;">\$</th> <th style="width: 10%;"></th> <th style="width: 10%; text-align: right;">\$</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Balance on bank statement</td> <td></td> <td></td> <td style="text-align: right;">7 162</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Add: Amount not yet credited – competition fees</td> <td style="text-align: right;">260</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Bank error</td> <td style="text-align: right;"><u>25</u></td> <td style="text-align: right;">(1)</td> <td style="text-align: right;"><u>285</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">7 447</td> <td></td> </tr> <tr> <td>Less Cheque not yet presented – fittings</td> <td></td> <td></td> <td style="text-align: right;"><u>4 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Balance in cash book</td> <td></td> <td></td> <td style="text-align: right;">3 447</td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table> <p>Alternative presentation</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: right;">\$</th> <th style="width: 10%;"></th> <th style="width: 10%; text-align: right;">\$</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Balance in cash book</td> <td></td> <td></td> <td style="text-align: right;">3 447</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Add: Cheque not yet presented – fittings</td> <td></td> <td></td> <td style="text-align: right;"><u>4 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">7 447</td> <td></td> </tr> <tr> <td>Less: Amount not yet credited – competition fees</td> <td style="text-align: right;">260</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Bank error</td> <td style="text-align: right;"><u>25</u></td> <td style="text-align: right;">(1)</td> <td style="text-align: right;"><u>285</u></td> <td></td> </tr> <tr> <td>Balance on bank statement</td> <td></td> <td></td> <td style="text-align: right;">7 162</td> <td style="text-align: right;">(1)</td> </tr> </tbody> </table> | | \$ | | \$ | | Balance on bank statement | | | 7 162 | (1) | Add: Amount not yet credited – competition fees | 260 | (1) | | | Bank error | <u>25</u> | (1) | <u>285</u> | | | | | 7 447 | | Less Cheque not yet presented – fittings | | | <u>4 000</u> | (1) | Balance in cash book | | | 3 447 | (1) OF | | \$ | | \$ | | Balance in cash book | | | 3 447 | (1) OF | Add: Cheque not yet presented – fittings | | | <u>4 000</u> | (1) | | | | 7 447 | | Less: Amount not yet credited – competition fees | 260 | (1) | | | Bank error | <u>25</u> | (1) | <u>285</u> | | Balance on bank statement | | | 7 162 | (1) | 5 |
| | \$ | | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance on bank statement | | | 7 162 | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Add: Amount not yet credited – competition fees | 260 | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bank error | <u>25</u> | (1) | <u>285</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | 7 447 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Cheque not yet presented – fittings | | | <u>4 000</u> | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance in cash book | | | 3 447 | (1) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | \$ | | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance in cash book | | | 3 447 | (1) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| | | | 7 447 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less: Amount not yet credited – competition fees | 260 | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bank error | <u>25</u> | (1) | <u>285</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance on bank statement | | | 7 162 | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | | | Marks | | | | | | | | | | | | | | | | | |
|---|--|-------------------------------|--------------------------------|-------|--------------------------------------|------------------------------|-----|--|---|-----|------------------------------|---|-----|---|---|-----|--|--|-----|--|---|
| 1(d) | <table border="1"> <thead> <tr> <th data-bbox="477 220 1093 284">Receipts and payments account</th> <th data-bbox="1093 220 1704 284">Income and expenditure account</th> <th data-bbox="1704 220 1794 284"></th> </tr> </thead> <tbody> <tr> <td data-bbox="477 284 1093 355">Includes all money received and paid</td> <td data-bbox="1093 284 1704 355">Includes income and expenses</td> <td data-bbox="1704 284 1794 355">(1)</td> </tr> <tr> <td data-bbox="477 355 1093 435">No adjustment made for accruals or prepayments</td> <td data-bbox="1093 355 1704 435">Adjustments made for accruals and prepayments</td> <td data-bbox="1704 355 1794 435">(1)</td> </tr> <tr> <td data-bbox="477 435 1093 587">Includes only monetary items</td> <td data-bbox="1093 435 1704 587">Includes non-monetary items Includes only revenue receipts and expenditure</td> <td data-bbox="1704 435 1794 587">(1)</td> </tr> <tr> <td data-bbox="477 587 1093 659">Includes both capital and revenue items</td> <td data-bbox="1093 587 1704 659">Balancing figure represents surplus/deficit</td> <td data-bbox="1704 587 1794 659">(1)</td> </tr> <tr> <td data-bbox="477 659 1093 707">Balancing figure represents bank balance</td> <td data-bbox="1093 659 1704 707"></td> <td data-bbox="1704 659 1794 707">(1)</td> </tr> </tbody> </table> | Receipts and payments account | Income and expenditure account | | Includes all money received and paid | Includes income and expenses | (1) | No adjustment made for accruals or prepayments | Adjustments made for accruals and prepayments | (1) | Includes only monetary items | Includes non-monetary items Includes only revenue receipts and expenditure | (1) | Includes both capital and revenue items | Balancing figure represents surplus/deficit | (1) | Balancing figure represents bank balance | | (1) | | 3 |
| Receipts and payments account | Income and expenditure account | | | | | | | | | | | | | | | | | | | | |
| Includes all money received and paid | Includes income and expenses | (1) | | | | | | | | | | | | | | | | | | | |
| No adjustment made for accruals or prepayments | Adjustments made for accruals and prepayments | (1) | | | | | | | | | | | | | | | | | | | |
| Includes only monetary items | Includes non-monetary items Includes only revenue receipts and expenditure | (1) | | | | | | | | | | | | | | | | | | | |
| Includes both capital and revenue items | Balancing figure represents surplus/deficit | (1) | | | | | | | | | | | | | | | | | | | |
| Balancing figure represents bank balance | | (1) | | | | | | | | | | | | | | | | | | | |
| <p>Accept other valid points Max (3) for comparative statements</p> | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | | | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---------------------------------------|--------------|-------|----------|--|-------------|--------------|--|---------|--|--------|---|----------|-------|--|------|-------------------|--------|--|---|---|--|-------|------|---------------------------|-------|--|--|-------------------|-------|--|--|----------------|--|-----|-----|----------------|--|-------|--|-------|--|--------|--|-----------|--------|--|--|-------------------|--|-----|------|------------------|-----|--|---|-------------------|--|-----|---|-----------------------|--|-------|------|--------------------|-------|--|--|-----------------|-------|--|--|----------|-----|--|--|--|--------|--------|-------|
| 2(a) | Ame Trial Balance at 31 March 2020 | | | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 45%;"></th> <th style="width: 15%; text-align: center;">Debit \$</th> <th style="width: 15%; text-align: center;">Credit \$</th> <th style="width: 25%;"></th> </tr> </thead> <tbody> <tr> <td>Capital</td> <td></td> <td style="text-align: right;">10 369</td> <td>}</td> </tr> <tr> <td>Drawings</td> <td style="text-align: right;">4 000</td> <td></td> <td>}(1)</td> </tr> <tr> <td>Equipment at cost</td> <td style="text-align: right;">15 500</td> <td></td> <td>}</td> </tr> <tr> <td>Provision for depreciation of equipment</td> <td></td> <td style="text-align: right;">3 100</td> <td>}(1)</td> </tr> <tr> <td>Inventory at 1 April 2019</td> <td style="text-align: right;">1 765</td> <td></td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">1 290</td> <td></td> <td></td> </tr> <tr> <td>Bank overdraft</td> <td></td> <td style="text-align: right;">475</td> <td>(1)</td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">1 600</td> <td></td> </tr> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">31 250</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">18 330</td> <td></td> <td></td> </tr> <tr> <td>Purchases returns</td> <td></td> <td style="text-align: right;">910</td> <td>}(1)</td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">640</td> <td></td> <td>}</td> </tr> <tr> <td>Discount received</td> <td></td> <td style="text-align: right;">815</td> <td>}</td> </tr> <tr> <td>Commission receivable</td> <td></td> <td style="text-align: right;">1 500</td> <td>}(1)</td> </tr> <tr> <td>Rent and Insurance</td> <td style="text-align: right;">5 700</td> <td></td> <td></td> </tr> <tr> <td>Office expenses</td> <td style="text-align: right;">2 425</td> <td></td> <td></td> </tr> <tr> <td>Suspense</td> <td style="text-align: right;">369</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">50 019</td> <td style="text-align: right; border-top: 1px solid black;">50 019</td> <td>(1)OF</td> </tr> </tbody> </table> | | | | | | Debit \$ | Credit \$ | | Capital | | 10 369 | } | Drawings | 4 000 | | }(1) | Equipment at cost | 15 500 | | } | Provision for depreciation of equipment | | 3 100 | }(1) | Inventory at 1 April 2019 | 1 765 | | | Trade receivables | 1 290 | | | Bank overdraft | | 475 | (1) | Trade payables | | 1 600 | | Sales | | 31 250 | | Purchases | 18 330 | | | Purchases returns | | 910 | }(1) | Carriage inwards | 640 | | } | Discount received | | 815 | } | Commission receivable | | 1 500 | }(1) | Rent and Insurance | 5 700 | | | Office expenses | 2 425 | | | Suspense | 369 | | | | 50 019 | 50 019 | (1)OF |
| | Debit \$ | Credit \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Capital | | 10 369 | } | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Drawings | 4 000 | | }(1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equipment at cost | 15 500 | | } | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Provision for depreciation of equipment | | 3 100 | }(1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inventory at 1 April 2019 | 1 765 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade receivables | 1 290 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bank overdraft | | 475 | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade payables | | 1 600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sales | | 31 250 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases | 18 330 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases returns | | 910 | }(1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Carriage inwards | 640 | | } | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount received | | 815 | } | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Commission receivable | | 1 500 | }(1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Rent and Insurance | 5 700 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Office expenses | 2 425 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Suspense | 369 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 50 019 | 50 019 | (1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | | | | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---------|-----------------|---------|-------|---------------------------------------|--|--|--|-------|--|--------|--|---------|----|---------|----|--|-------------|----|--------------|----|---|-----------------|---------|----------|---------|-------|-------|---------|--|--|---|----------|---------|-----------|---------|---|--------------------|---------|----------|---------|---|-----------|---------|-----------------|---------|---|
| 2(b) | <table border="1"> <thead> <tr> <th data-bbox="409 284 1084 483" rowspan="3">Error</th> <th colspan="4" data-bbox="1084 284 1861 347">Entries required to correct the error</th> </tr> <tr> <th colspan="2" data-bbox="1084 347 1473 411">Debit</th> <th colspan="2" data-bbox="1473 347 1861 411">Credit</th> </tr> <tr> <th data-bbox="1084 411 1339 483">Account</th> <th data-bbox="1339 411 1473 483">\$</th> <th data-bbox="1473 411 1727 483">Account</th> <th data-bbox="1727 411 1861 483">\$</th> </tr> </thead> <tbody> <tr> <td data-bbox="409 483 1084 547">No entry had been made for cash sales, \$60.</td> <td data-bbox="1084 483 1339 547"><i>Cash</i></td> <td data-bbox="1339 483 1473 547">60</td> <td data-bbox="1473 483 1727 547"><i>Sales</i></td> <td data-bbox="1727 483 1861 547">60</td> </tr> <tr> <td data-bbox="409 547 1084 643">Office expenses, \$240, had been credited to the wages account. No debit entry had been made.</td> <td data-bbox="1084 547 1339 595">Office expenses</td> <td data-bbox="1339 547 1473 595">240 (1)</td> <td data-bbox="1473 547 1727 595">Suspense</td> <td data-bbox="1727 547 1861 595">480 (1)</td> </tr> <tr> <td data-bbox="409 595 1084 659">Wages</td> <td data-bbox="1084 595 1339 659">Wages</td> <td data-bbox="1339 595 1473 659">240 (1)</td> <td data-bbox="1473 595 1727 659"></td> <td data-bbox="1727 595 1861 659"></td> </tr> <tr> <td data-bbox="409 659 1084 786">The purchases journal total for March 2020 was \$2165. This amount was incorrectly recorded in the purchases account as \$2651.</td> <td data-bbox="1084 659 1339 722">Suspense</td> <td data-bbox="1339 659 1473 722">486 (1)</td> <td data-bbox="1473 659 1727 722">Purchases</td> <td data-bbox="1727 659 1861 722">486 (1)</td> </tr> <tr> <td data-bbox="409 786 1084 914">An insurance payment, \$375, had been correctly recorded in the cash book but no other entry has been made.</td> <td data-bbox="1084 786 1339 882">Rent and insurance</td> <td data-bbox="1339 786 1473 882">375 (1)</td> <td data-bbox="1473 786 1727 882">Suspense</td> <td data-bbox="1727 786 1861 882">375 (1)</td> </tr> <tr> <td data-bbox="409 914 1084 1074">The purchase of equipment, \$800, was correctly recorded in the cash book but debited to the office expenses account.</td> <td data-bbox="1084 914 1339 978">Equipment</td> <td data-bbox="1339 914 1473 978">800 (1)</td> <td data-bbox="1473 914 1727 978">Office expenses</td> <td data-bbox="1727 914 1861 978">800 (1)</td> </tr> </tbody> </table> | | | | Error | Entries required to correct the error | | | | Debit | | Credit | | Account | \$ | Account | \$ | No entry had been made for cash sales, \$60. | <i>Cash</i> | 60 | <i>Sales</i> | 60 | Office expenses, \$240, had been credited to the wages account. No debit entry had been made. | Office expenses | 240 (1) | Suspense | 480 (1) | Wages | Wages | 240 (1) | | | The purchases journal total for March 2020 was \$2165. This amount was incorrectly recorded in the purchases account as \$2651. | Suspense | 486 (1) | Purchases | 486 (1) | An insurance payment, \$375, had been correctly recorded in the cash book but no other entry has been made. | Rent and insurance | 375 (1) | Suspense | 375 (1) | The purchase of equipment, \$800, was correctly recorded in the cash book but debited to the office expenses account. | Equipment | 800 (1) | Office expenses | 800 (1) | 9 |
| Error | Entries required to correct the error | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Debit | | Credit | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Account | \$ | Account | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No entry had been made for cash sales, \$60. | <i>Cash</i> | 60 | <i>Sales</i> | 60 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Office expenses, \$240, had been credited to the wages account. No debit entry had been made. | Office expenses | 240 (1) | Suspense | 480 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Wages | Wages | 240 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| The purchases journal total for March 2020 was \$2165. This amount was incorrectly recorded in the purchases account as \$2651. | Suspense | 486 (1) | Purchases | 486 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| An insurance payment, \$375, had been correctly recorded in the cash book but no other entry has been made. | Rent and insurance | 375 (1) | Suspense | 375 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| The purchase of equipment, \$800, was correctly recorded in the cash book but debited to the office expenses account. | Equipment | 800 (1) | Office expenses | 800 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | | | | | | Marks | |
|----------|-----------------------------|--------|---------|--------|--------------------|---------|----------|-----|
| 2(c) | Ame Suspense account | | | | | | 5 | |
| | | Date | Details | \$ | Date | Details | \$ | |
| 2020 | | | | | 2020 | | | |
| Mar 31 | Difference on trial balance | (1) OF | 369 | Mar 31 | Office expenses | (1) | 240 | |
| | | | | | Wages | (1) | 240 | |
| | Purchases | (1) | 486 | | Rent and insurance | (1) | 375 | |
| | | | | | | | 855 | 855 |

| Question | Answer | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|------------------------|----|----|---------------------------|--|--|-----------------------------------|-------|--|---------------------------|---------------|--|--|--------|--|--|--------------|------------|--------------|--|------------|-----------------------------|--|------------------|------------|--|--------------|-------------------|--|--|----------------------------|------------|--|--------------------------|-------|--|------------------------|-------|--|-----------------------------------|------------|--|---|------------------|---------------|--|--|---------------|------------------------------|----------------|--|--|--|---------|-------------------------------|--|------------------------|--------------------|--|-----------------------|-----------|
| 3(a) | <p style="text-align: center;">Chippo Manufacturing Account for the year ended 30 April 2020</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Cost of material consumed</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory of raw material</td> <td style="text-align: right;">3 120</td> <td></td> </tr> <tr> <td>Purchases of raw material</td> <td style="text-align: right;"><u>46 500</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">49 620</td> <td></td> </tr> <tr> <td>Less Closing inventory of raw material</td> <td style="text-align: right;"><u>3 000</u></td> <td style="text-align: right;">46 620 (1)</td> </tr> <tr> <td>Direct wages</td> <td></td> <td style="text-align: right;">38 250 (1)</td> </tr> <tr> <td>Direct expenses – royalties</td> <td></td> <td style="text-align: right;"><u>7 690 (1)</u></td> </tr> <tr> <td>Prime cost</td> <td></td> <td style="text-align: right;">92 560 (1)OF</td> </tr> <tr> <td>Factory overheads</td> <td></td> <td></td> </tr> <tr> <td>Wages – factory supervisor</td> <td style="text-align: right;">28 500 (1)</td> <td></td> </tr> <tr> <td>Factory general expenses</td> <td style="text-align: right;">4 500</td> <td></td> </tr> <tr> <td>Factory fuel and power</td> <td style="text-align: right;">5 325</td> <td></td> </tr> <tr> <td>Rent and insurance (28 000 × 50%)</td> <td style="text-align: right;">14 000 (1)</td> <td></td> </tr> <tr> <td>Depreciation of machinery (60 000 – 21 600) × 20%</td> <td style="text-align: right;"><u>7 680 (1)</u></td> <td style="text-align: right;"><u>60 005</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">152 565 (1)OF</td> </tr> <tr> <td>Add opening work in progress</td> <td style="text-align: right;"><u>5 400 *</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">157 965</td> </tr> <tr> <td>Less closing work in progress</td> <td></td> <td style="text-align: right;"><u>5 590 *(1) both</u></td> </tr> <tr> <td>Cost of production</td> <td></td> <td style="text-align: right;"><u>152 375 (1) OF</u></td> </tr> </tbody> </table> <p>*mark for both opening and closing work-in-progress</p> | | \$ | \$ | Cost of material consumed | | | Opening inventory of raw material | 3 120 | | Purchases of raw material | <u>46 500</u> | | | 49 620 | | Less Closing inventory of raw material | <u>3 000</u> | 46 620 (1) | Direct wages | | 38 250 (1) | Direct expenses – royalties | | <u>7 690 (1)</u> | Prime cost | | 92 560 (1)OF | Factory overheads | | | Wages – factory supervisor | 28 500 (1) | | Factory general expenses | 4 500 | | Factory fuel and power | 5 325 | | Rent and insurance (28 000 × 50%) | 14 000 (1) | | Depreciation of machinery (60 000 – 21 600) × 20% | <u>7 680 (1)</u> | <u>60 005</u> | | | 152 565 (1)OF | Add opening work in progress | <u>5 400 *</u> | | | | 157 965 | Less closing work in progress | | <u>5 590 *(1) both</u> | Cost of production | | <u>152 375 (1) OF</u> | 10 |
| | \$ | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of material consumed | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Opening inventory of raw material | 3 120 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases of raw material | <u>46 500</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 49 620 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Closing inventory of raw material | <u>3 000</u> | 46 620 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Direct wages | | 38 250 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Direct expenses – royalties | | <u>7 690 (1)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Prime cost | | 92 560 (1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Factory overheads | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Wages – factory supervisor | 28 500 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Factory general expenses | 4 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Factory fuel and power | 5 325 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Rent and insurance (28 000 × 50%) | 14 000 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Depreciation of machinery (60 000 – 21 600) × 20% | <u>7 680 (1)</u> | <u>60 005</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 152 565 (1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Add opening work in progress | <u>5 400 *</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 157 965 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less closing work in progress | | <u>5 590 *(1) both</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of production | | <u>152 375 (1) OF</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|------------------------------|-----------------------|-----------------------|--------------------------------------|--|---------|--|------|--|-------------------------------------|-------|--|--------------------|---------|---------------|-----------------------------|---------------|------------|--|---------|--|--|--------------|------------------------------|--------------|--|-----------------------------|----------|
| 3(b) | <p style="text-align: center;">Chippo Income Statement (Trading Account section) for the year ended 30 April 2020</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 20%; text-align: right;">\$</td> <td style="width: 20%; text-align: right;">\$</td> </tr> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">254 000</td> </tr> <tr> <td>Less Cost of sales</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory of finished goods</td> <td style="text-align: right;">8 220</td> <td></td> </tr> <tr> <td>Cost of production</td> <td style="text-align: right;">152 375</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Purchases of finished goods</td> <td style="text-align: right;"><u>59 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right;">219 595</td> <td></td> </tr> <tr> <td>Less Closing inventory of finished goods</td> <td style="text-align: right;"><u>7 885</u></td> <td style="text-align: right;"><u>211 710</u> (1) OF</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;"><u>42 290</u> (1) OF</td> </tr> </table> | | \$ | \$ | Revenue | | 254 000 | Less Cost of sales | | | Opening inventory of finished goods | 8 220 | | Cost of production | 152 375 | (1) OF | Purchases of finished goods | <u>59 000</u> | (1) | | 219 595 | | Less Closing inventory of finished goods | <u>7 885</u> | <u>211 710</u> (1) OF | Gross profit | | <u>42 290</u> (1) OF | 4 |
| | \$ | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenue | | 254 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Cost of sales | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Opening inventory of finished goods | 8 220 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of production | 152 375 | (1) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases of finished goods | <u>59 000</u> | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 219 595 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Closing inventory of finished goods | <u>7 885</u> | <u>211 710</u> (1) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross profit | | <u>42 290</u> (1) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3(c) | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Action</th> <th style="width: 35%;">Increase gross profit</th> <th style="width: 35%;">Decrease gross profit</th> </tr> </thead> <tbody> <tr> <td>Increase wages of factory supervisor</td> <td></td> <td style="text-align: center;">✓(1)</td> </tr> <tr> <td>Reduce trade discount allowed to customers</td> <td style="text-align: center;">✓(1)</td> <td></td> </tr> </tbody> </table> | Action | Increase gross profit | Decrease gross profit | Increase wages of factory supervisor | | ✓(1) | Reduce trade discount allowed to customers | ✓(1) | | 2 | | | | | | | | | | | | | | | | | | |
| Action | Increase gross profit | Decrease gross profit | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Increase wages of factory supervisor | | ✓(1) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reduce trade discount allowed to customers | ✓(1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | Marks |
|----------|--|----------|
| 3(d) | <p>Advantages A manufacturing business such as Chippo's, which requires machinery as well as premises, would usually operate as a limited company (1) Chippo would be able to raise some money by issuing shares (1) It may be easier for Chippo to obtain finance for the proposed expansion if the business is a limited company (1) If Chippo converts the business to a limited company, her personal assets will be safer (1) If Chippo continues to manufacture as a sole trader, the lender could take her personal assets if the assets of the business were insufficient to cover any loans (1) Accept other valid points Max (2)</p> <p>Disadvantages The lender is likely to require security over the company's assets (1) The lender could take possession of the assets of the business if payments were not made in accordance with the agreed terms (1) There will be costs involved in setting up and running a limited company (1) Accept other valid points Max (2)</p> <p>Max (3) overall for advantages and disadvantages</p> <p>Recommendation (1)</p> | 4 |

| Question | Answer | | | | | Marks | | | | | | | | | | | | | | | | | | | | | | | | | |
|----------|--|--|-----------------|-------------------|--|-------|----------------------------|--|-----------------|-------------------|---|-------------|----|-----|-----------|---|-------------|----|----|-----------|---|-------------|----|----|-----------|-------|--|--|--|-----------|---|
| 4(a) | <table border="1"> <thead> <tr> <th data-bbox="495 220 692 384">Item</th> <th data-bbox="692 220 965 384">Net realisable value \$</th> <th data-bbox="965 220 1238 384">Lower of cost and net realisable value \$</th> <th data-bbox="1238 220 1512 384">Number of units</th> <th data-bbox="1512 220 1778 384">Total value \$</th> </tr> </thead> <tbody> <tr> <td data-bbox="495 384 692 451">A</td> <td data-bbox="692 384 965 451">20 – 2 = 18</td> <td data-bbox="965 384 1238 451">17</td> <td data-bbox="1238 384 1512 451">110</td> <td data-bbox="1512 384 1778 451">1 870 (1)</td> </tr> <tr> <td data-bbox="495 451 692 518">B</td> <td data-bbox="692 451 965 518">19 – 1 = 18</td> <td data-bbox="965 451 1238 518">18</td> <td data-bbox="1238 451 1512 518">85</td> <td data-bbox="1512 451 1778 518">1 530 (1)</td> </tr> <tr> <td data-bbox="495 518 692 585">C</td> <td data-bbox="692 518 965 585">16 – 2 = 14</td> <td data-bbox="965 518 1238 585">14</td> <td data-bbox="1238 518 1512 585">90</td> <td data-bbox="1512 518 1778 585">1 260 (1)</td> </tr> <tr> <td data-bbox="495 585 692 652">Total</td> <td data-bbox="692 585 965 652"></td> <td data-bbox="965 585 1238 652"></td> <td data-bbox="1238 585 1512 652"></td> <td data-bbox="1512 585 1778 652">4 660 (1)</td> </tr> </tbody> </table> | | | | | Item | Net realisable value \$ | Lower of cost and net realisable value \$ | Number of units | Total value \$ | A | 20 – 2 = 18 | 17 | 110 | 1 870 (1) | B | 19 – 1 = 18 | 18 | 85 | 1 530 (1) | C | 16 – 2 = 14 | 14 | 90 | 1 260 (1) | Total | | | | 4 660 (1) | 4 |
| Item | Net realisable value \$ | Lower of cost and net realisable value \$ | Number of units | Total value \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 20 – 2 = 18 | 17 | 110 | 1 870 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 19 – 1 = 18 | 18 | 85 | 1 530 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C | 16 – 2 = 14 | 14 | 90 | 1 260 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | | | 4 660 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4(b) | <p>The net realisable value is lower than the cost so item D should be recorded at its net realisable of zero (1) There will be no effect on profit (1)</p> | | | | | 2 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4(c) | <p>Advantages The obsolete inventory is a loss to Rani’s business (1) She will wish to avoid such losses in the future (1) Holding inventory necessitates storage costs (1) If Rani stops buying item D, she may have funds available for other business opportunities (1) Rani had difficulty in monitoring four types of inventory (1) Accept other valid points Max (2)</p> <p>Disadvantages Rani needs to consider that it may be risky to stock only three of the four lines of inventory in the future (1) There may be customer demand in future for item D (1) Customers who have to start buying item D from another supplier may also buy items A, B and C from them (1) Accept other valid points Max (2)</p> <p>Recommendation (1)</p> | | | | | 5 | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | | | | | | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|----------------|---|----------------|----------------|---------------------|--------------|--|----------|---------|----|------|---------|----|---------------|-------------|-------------|---------------|--------------|-----|----------------|------------------|----------------|----------------|------|--------------|--|-------------|-----|--|---------------------|------------|--|--|-------|--|-------------|-----|--|--|-------|--|--|-------|---------------|-------------|------------|---------------|-------------|------------|----------|
| 4(d) | Rani Advertising income account <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 30%;">Details</th> <th style="width: 10%;">\$</th> <th style="width: 10%;">Date</th> <th style="width: 30%;">Details</th> <th style="width: 10%;">\$</th> </tr> </thead> <tbody> <tr> <td>2019 Apl 1</td> <td>Balance b/d</td> <td style="text-align: right;">*(1) 300</td> <td>2019 Apl 1</td> <td>Balance b/d*</td> <td style="text-align: right;">420</td> </tr> <tr> <td>2020 Mar 31</td> <td>Income statement</td> <td style="text-align: right;">(1)OF 6 320</td> <td>2020 Mar 31</td> <td>Bank</td> <td style="text-align: right;">(1) 6 000</td> </tr> <tr> <td></td> <td>Balance c/d</td> <td style="text-align: right;">500</td> <td></td> <td>Irrecoverable debts</td> <td style="text-align: right;">(1) 300</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">7 120</td> <td></td> <td>Balance c/d</td> <td style="text-align: right;">400</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">7 120</td> <td></td> <td></td> <td style="text-align: right;">7 120</td> </tr> <tr> <td>2020 Apl 1</td> <td>Balance b/d</td> <td style="text-align: right;">(1) 400</td> <td>2020 Apl 1</td> <td>Balance b/d</td> <td style="text-align: right;">(1) 500</td> </tr> </tbody> </table> <p>(1) Dates * mark for both balances</p> | | | | | | Date | Details | \$ | Date | Details | \$ | 2019 Apl 1 | Balance b/d | *(1) 300 | 2019 Apl 1 | Balance b/d* | 420 | 2020 Mar 31 | Income statement | (1)OF 6 320 | 2020 Mar 31 | Bank | (1) 6 000 | | Balance c/d | 500 | | Irrecoverable debts | (1) 300 | | | 7 120 | | Balance c/d | 400 | | | 7 120 | | | 7 120 | 2020 Apl 1 | Balance b/d | (1) 400 | 2020 Apl 1 | Balance b/d | (1) 500 | 7 |
| Date | Details | \$ | Date | Details | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2019 Apl 1 | Balance b/d | *(1) 300 | 2019 Apl 1 | Balance b/d* | 420 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 Mar 31 | Income statement | (1)OF 6 320 | 2020 Mar 31 | Bank | (1) 6 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Balance c/d | 500 | | Irrecoverable debts | (1) 300 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 7 120 | | Balance c/d | 400 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 7 120 | | | 7 120 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 Apl 1 | Balance b/d | (1) 400 | 2020 Apl 1 | Balance b/d | (1) 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4(e) | <p>Sales of inventory are included in calculation of the gross profit (1) Advertising income is included as other income after the calculation of the gross profit (1) If sales of inventory are included as advertising income the gross profit will be understated (1) Accept other valid points Max (2)</p> | | | | | | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|----------------------------------|---|--------|--------|----|--|------------------------------|--|--------|---|---------------------|--------|--|-------|--|--------|--|--|----------------------------------|-------|--|---|----------|-------|--|-------|---------------------------------|--|-------|--|--|--|--------|--------|----------|
| 5(a) | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right; width: 10%;">\$</td> <td style="text-align: right; width: 10%;">\$</td> <td style="width: 20%;"></td> </tr> <tr> <td>Retained earnings 1 May 2019</td> <td></td> <td>14 000</td> <td>}</td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;">28 000</td> <td></td> <td>} (1)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">42 000</td> <td></td> <td></td> </tr> <tr> <td>Less Transfer to general reserve</td> <td style="text-align: right;">5 000</td> <td></td> <td>}</td> </tr> <tr> <td>Dividend</td> <td style="text-align: right;">4 500</td> <td></td> <td>} (1)</td> </tr> <tr> <td>Retained earnings 30 April 2020</td> <td style="text-align: right; border-top: 1px solid black;"></td> <td style="text-align: right; border-top: 1px solid black;">9 500</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">32 500</td> <td> (1) OF</td> </tr> </table> <p>Any format acceptable</p> | | \$ | \$ | | Retained earnings 1 May 2019 | | 14 000 | } | Profit for the year | 28 000 | | } (1) | | 42 000 | | | Less Transfer to general reserve | 5 000 | | } | Dividend | 4 500 | | } (1) | Retained earnings 30 April 2020 | | 9 500 | | | | 32 500 | (1) OF | 3 |
| | \$ | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retained earnings 1 May 2019 | | 14 000 | } | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Profit for the year | 28 000 | | } (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 42 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Transfer to general reserve | 5 000 | | } | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dividend | 4 500 | | } (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retained earnings 30 April 2020 | | 9 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 32 500 | (1) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------------------|--|---------------------|----|----|--------|--|--|--------------------|--|--|--------------------------------------|--|---------|------------------------------|--|--------|--|--|--------------------|----------------|--|--|-----------|--|--------|-------------------|--------|--|-----------------------------------|------------|-------------------|--|--|---------------------|--------------|--|----------------|------------------------|--|--|--------|--|--|------------------------|--|---------|----------------------------------|--|------------|-------------------|--|---------------------|--|--|----------------|-------------------------|--|--|---------------|--|-------------------|---------------------|--|--|----------------|--|--------|------|--|-------|--|--|-------------------|------------------------------|--|----------------|----------|
| 5(b) | <p style="text-align: center;">MPT Limited Statement of Financial Position at 30 April 2020</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Assets</td> <td></td> <td></td> </tr> <tr> <td>Non-current Assets</td> <td></td> <td></td> </tr> <tr> <td>Fixtures and equipment at book value</td> <td></td> <td style="text-align: right;">152 000</td> </tr> <tr> <td>Motor vehicles at book value</td> <td></td> <td style="text-align: right;">60 400</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>212 400</u> (1)</td> </tr> <tr> <td>Current Assets</td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">30 330</td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">31 500</td> <td></td> </tr> <tr> <td>Less Provision for doubtful debts</td> <td style="text-align: right;"><u>630</u></td> <td style="text-align: right;"><u>30 870</u> (1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>61 200</u> (1)OF</td> </tr> <tr> <td>Total assets</td> <td></td> <td style="text-align: right;"><u>273 600</u></td> </tr> <tr> <td>Equity and Liabilities</td> <td></td> <td></td> </tr> <tr> <td>Equity</td> <td></td> <td></td> </tr> <tr> <td>Ordinary share capital</td> <td></td> <td style="text-align: right;">150 000</td> </tr> <tr> <td>General reserve (35 000 + 5 000)</td> <td></td> <td style="text-align: right;">40 000 (1)</td> </tr> <tr> <td>Retained earnings</td> <td></td> <td style="text-align: right;"><u>32 500</u> (1)OF</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>222 500</u></td> </tr> <tr> <td>Non-current Liabilities</td> <td></td> <td></td> </tr> <tr> <td>5% Debentures</td> <td></td> <td style="text-align: right;"><u>20 000</u> (1)</td> </tr> <tr> <td>Current Liabilities</td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">24 900</td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;">6 200</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>31 100</u> (1)</td> </tr> <tr> <td>Total Equity and Liabilities</td> <td></td> <td style="text-align: right;"><u>273 600</u></td> </tr> </tbody> </table> | | \$ | \$ | Assets | | | Non-current Assets | | | Fixtures and equipment at book value | | 152 000 | Motor vehicles at book value | | 60 400 | | | <u>212 400</u> (1) | Current Assets | | | Inventory | | 30 330 | Trade receivables | 31 500 | | Less Provision for doubtful debts | <u>630</u> | <u>30 870</u> (1) | | | <u>61 200</u> (1)OF | Total assets | | <u>273 600</u> | Equity and Liabilities | | | Equity | | | Ordinary share capital | | 150 000 | General reserve (35 000 + 5 000) | | 40 000 (1) | Retained earnings | | <u>32 500</u> (1)OF | | | <u>222 500</u> | Non-current Liabilities | | | 5% Debentures | | <u>20 000</u> (1) | Current Liabilities | | | Trade payables | | 24 900 | Bank | | 6 200 | | | <u>31 100</u> (1) | Total Equity and Liabilities | | <u>273 600</u> | 7 |
| | \$ | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-current Assets | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fixtures and equipment at book value | | 152 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Motor vehicles at book value | | 60 400 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <u>212 400</u> (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inventory | | 30 330 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade receivables | 31 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Provision for doubtful debts | <u>630</u> | <u>30 870</u> (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <u>61 200</u> (1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total assets | | <u>273 600</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity and Liabilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Ordinary share capital | | 150 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| General reserve (35 000 + 5 000) | | 40 000 (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retained earnings | | <u>32 500</u> (1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <u>222 500</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-current Liabilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5% Debentures | | <u>20 000</u> (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade payables | | 24 900 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bank | | 6 200 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <u>31 100</u> (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Equity and Liabilities | | <u>273 600</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5(c) | <p>General reserves may not necessarily be matched by cash balances (1)</p> <p>Accept other valid points</p> | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | Marks |
|----------|--|----------|
| 5(d) | <p>Either</p> $\frac{28\,000 + 1\,000 \text{ (1)}}{150\,000 + 40\,000 \text{ (1)OF} + 32\,500\text{OF} + 20\,000 \text{ (1)}} \times \frac{100}{1}$ $= \frac{29\,000}{242\,500} \times \frac{100}{1}$ $= 11.96\% \text{ (1)OF}$ <p>Or</p> $\frac{28\,000 + 1\,000 \text{ (1)}}{273\,600 \text{ (1)OF} - 31\,100 \text{ (1)}} \times \frac{100}{1}$ $= 11.96\% \text{ (1)OF}$ | 4 |

| Question | Answer | Marks |
|----------|---|----------|
| 5(e) | <p>Basic statements – Increase profit for the year (1) Reduce capital employed (1) Use capital employed more effectively (1)</p> <p>Max (3)</p> <p>Expansion of basic statements – Ways to increase profit for the year – Increase profit by increasing gross profit (1) Reduce expenses (1) Increase other income (1)</p> <p>Max (2)</p> <p>Ways to reduce capital employed – Increase dividend (so reducing reserves) (1) Reduce non-current liabilities (1)</p> <p>Max (2)</p> <p>Ways to use capital employed more effectively – combine lower costs with higher sales (1) sell off surplus/inefficient assets that generate little revenue/increase costs (1)</p> <p>Max (2)</p> <p>Max (5)</p> | 5 |