

Example Candidate Responses

Cambridge
O Level

Cambridge O Level Principles of Accounts 7110



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Version 2

Contents

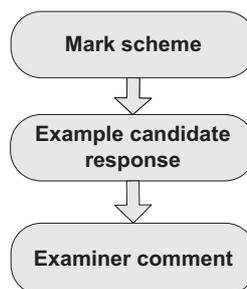
Introduction.....	2
Assessment at a glance.....	3
Paper 2 – Structured written paper	4

Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge O Level Principles of Accounts (7110), and to show how different levels of candidates' performance relate to the subject's curriculum and assessment objectives.

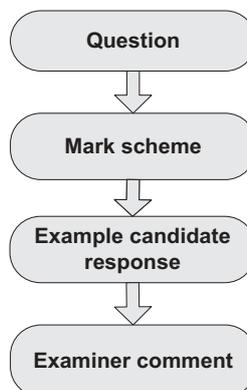
In this booklet responses has been chosen to exemplify a range of answers. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For ease of reference for questions 1 to 4, where the candidate response is integrated within the question, the following format has been adopted:



For each question, an extract from the mark scheme used by examiners is followed by examples of marked candidate responses, each with an examiner comment on performance. Comments are given to indicate where and why marks were awarded, and how additional marks could have been obtained. In this way, it is possible to understand what candidates have done to gain their marks and what they still have to do to improve.

For question 5, where the candidate response is separate to the question, the following format has been adopted:



Past papers, Examiner Reports and other teacher support materials are available on Teacher Support at <http://teachers.cie.org.uk>.

Assessment at a glance

There are two compulsory papers, Paper 1 and Paper 2. These papers both contain questions based on the whole syllabus.

Paper 1: Multiple choice	1 hour
There are 30 questions drawn from across the syllabus. All questions are compulsory.	
33.3% of final marks	

Paper 2: Structured written paper	2 hours
There are 4–6 compulsory questions drawn from topics across the syllabus. One of these questions (carrying approximately one third of the marks for Paper 2) involves the preparation of the final accounts of a manufacturing or trading business e.g. Income Statements (the Manufacturing, Trading and Profit and Loss Accounts) and the Balance Sheet. Questions on this paper may require completion of pro formas and tables.	
66.6% of final marks	

Teachers are reminded that a full syllabus is available on www.cie.org.uk.

Paper 2 – Structured written paper

Question 1

Mark scheme

1 (a)

Jane
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van	1500	
Shop fixtures	250	
Cash	500	
Peter – Loan		600
Capital		1650 (2)
	2250 (1)	2250 (1)

[4]

(b)

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital
Purchased goods, \$600, on credit from Punto	<i>Purchases journal</i>	<i>Purchases</i>	<i>Punto</i>	<i>No effect</i>
Sold goods list price, \$750, on credit to Yuen	Sales journal (1)	Yuen (1)	Sales (1)	+\$450 (1)
Sold all the shop fixtures for cash \$200	Cash book (1)	Cash (1)	Fixtures (Disposals) (1)	–\$50 (1)
Paid wages by cash \$150	Cash book (1)	Wages (1)	Cash (1)	–\$150 (1)
Yuen returned goods with a list price of \$100	Sales returns journal (1)	Sales returns (1)	Yuen (1)	–\$60 (1)

[16]

[Total: 20]

Example candidate response – high

- 1 Jane started business on 1 October 2012 with a motor van, \$1500, shop fixtures, \$250, and cash, \$500. To start the business she had borrowed \$600 from Peter.

For
Examiner's
Use**REQUIRED**

- (a) Complete the following trial balance showing clearly the value of the capital.

Jane
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van	+1500	
Shop fixtures	+250	
Cash	+500	
Peter – loan		+600
Capital		+1650

[4]

- (b) Jane buys and sells goods on credit. She maintains a full set of accounts. The table below contains a list of transactions carried out in the first week of trading. Complete the table below for **each** transaction, stating clearly the amount, if any, of increase or decrease in the value of capital. The first transaction has been completed as an example.

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital \$
Purchased goods, \$600, on credit from Punto	<i>Purchases journal</i>	<i>Purchases</i>	<i>Punto</i>	<i>No effect</i>
Sold goods for \$750 (cost price \$300) on credit to Yuen	<i>Sales Journal</i>	<i>Yuen</i>	<i>Sales</i>	<i>+450</i>
Sold all the shop fixtures for cash, \$200	<i>Cash Sales Book</i> <i>Shop fixtures</i>	<i>Cash</i>	<i>Shop fixtures</i>	<i>No effect</i>
Paid wages by cash, \$150	<i>Cash Book</i>	<i>Wages</i>	<i>Cash</i>	<i>\$-150</i>
Yuen returned goods, valued at \$100	<i>Return In day Journal</i>	<i>Return Inwards</i>	<i>Yuen</i>	<i>-100</i>

[16]

[Total: 20]

Examiner comment – high

- (a) The candidate correctly entered the assets and liabilities in the appropriate columns of the trial balance. The capital was correctly calculated and inserted in the correct column. The only error was omitting to enter the totals of the trial balance. **2/4**
- (b) The candidate produced a good answer. The cash received for the sale of fixtures would be credited to a disposal account. As the fixtures were valued at \$250 there was a loss which would decrease the capital by \$50. The goods returned to the business would reduce the capital by the amount of the profit on those goods. When the goods were sold there was a 60% profit margin ($450/750 \times 100$) so when goods valued at \$100 were returned the capital would decrease by \$60. **14/16**

Total mark awarded = 16 out of 20

Example candidate response – middle

- 1 Jane started business on 1 October 2012 with a motor van, \$1500, shop fixtures, \$250, and cash, \$500. To start the business she had borrowed \$600 from Peter.

For
Examiner's
Use**REQUIRED**

- (a) Complete the following trial balance showing clearly the value of the capital.

Jane
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van	1500	
Shop fixtures	250	
Cash	500	
Peter – loan		600
Capital		1750 600
	2250	2350

[4]

- (b) Jane buys and sells goods on credit. She maintains a full set of accounts. The table below contains a list of transactions carried out in the first week of trading. Complete the table below for **each** transaction, stating clearly the amount, if any, of increase or decrease in the value of capital. The first transaction has been completed as an example.

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital \$
Purchased goods, \$600, on credit from Punto	Purchases journal	Purchases	Punto	No effect
Sold goods for \$750 (cost price \$300) on credit to Yuen	Sales Journal	Yuen Sales	Sales	Increase
Sold all the shop fixtures for cash, \$200	Fixture	Cash	Fixture	Decrease
Paid wages by cash, \$150	wages Acc	Cash	wage	No effect
Yuen returned goods, valued at \$100	Return - inward	return inward Yuen	Yuen	Increase

[16]

[Total: 20]

Examiner comment – middle

- (a)** The candidate correctly entered the assets and liabilities in the appropriate columns of the trial balance. The trial balance was totalled, but the two totals did not agree, which caused the capital figure to be incorrect. **1/4**
- (b)** The candidate correctly identified the entries for the first transaction. In the second transaction the book of original entry was incorrect: this should have been the cash book. The cash received for the sale of fixtures would be credited to a disposal account. Cash paid for wages would appear in the cash book; the debit and credit entries were reversed. The candidate correctly identified that the last transaction related to returns inwards, but it was not sufficient to put “returns inwards” it should have been made clear that this was the returns inwards journal. No marks were earned for the entries in the last column of the table because the candidate did not include the amount by which the capital would increase or decrease. **8/16**

Total mark awarded = 9 out of 20

Example candidate response – low

- 1 Jane started business on 1 October 2012 with a motor van, \$1500, shop fixtures, \$250, and cash, \$500. To start the business she had borrowed \$600 from Peter.

For Examiner's Use

REQUIRED

- (a) Complete the following trial balance showing clearly the value of the capital.

Jane
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van	1500	
Shop fixtures	250	
Cash	500	
Peter – loan		600
Capital	1650	1650

[4]

- (b) Jane buys and sells goods on credit. She maintains a full set of accounts. The table below contains a list of transactions carried out in the first week of trading. Complete the table below for each transaction, stating clearly the amount, if any, of increase or decrease in the value of capital. The first transaction has been completed as an example.

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital \$
Purchased goods, \$600, on credit from Punto	Purchases journal	Purchases	Punto	No effect
Sold goods for \$750 (cost price \$300) on credit to Yuen	Sales journal	Sales	Jane	increase 450 450
Sold all the shop fixtures for cash, \$200	Sales journal	Sales	None	no effect
Paid wages by cash, \$150	general journal	bank wages	wages	decrease
Yuen returned goods, valued at \$100	sales return journal	returned goods	Jane	decrease

[16]

[Total: 20]

Examiner comment – low

- (a) The candidate correctly entered the assets and liabilities in the appropriate columns of the trial balance. The capital was correctly calculated but was inserted in both columns: this should have appeared only in the credit column. The trial balance was not totalled. **0/4**
- (b) The candidate correctly identified the book of original entry for the first and fourth transactions. The other two transactions would have been recorded in the cash book. A thorough knowledge of double entry would have ensured that the accounts to be debited and credited could be identified. Except for the first transaction, where the candidate included \$450, no marks were earned for the entries in the last column of the table because the candidate did not include the amount by which the capital would increase or decrease. **3/16**

Total mark awarded = 3 out of 20

Question 2

Mark scheme

2 (a)

Peng
Trial Balance at 31 August 2012

	Debit \$	Credit \$	
Capital		18 240 (1)	
Bank overdraft		3 000 (1)	
Fixtures and fittings	14 100		
Provision for depreciation – Fixtures and fittings		8 800	
Inventory	14 200		
Trade receivables	12 300		
Trade payables		9 900 (1)	
Revenue		110 000	
Purchases	51 000 (1)		
Discount received		1 800 (1)	
Wages and salaries	26 000 (1)		
Sundry expenses	34 000		
Discount allowed	620		
Suspense (1)		480 (2)	
	<u>152 220</u>	<u>152 220</u>	[9]

- (b) 1. Commission (1)
2. Principle (1)
3. Reversal (1)

[3]

(c)

Journal

	Dr \$	Cr \$	
A.Winscom	200 (1)		
W.Wilson		200 (1)	
Fixtures	900 (1)		
Purchases		900 (1)	
Wages	3000 (1)		
Bank		3000 (1)	
Suspense	480 (1)		
Discount received		480 (1)	[8]

[Total: 20]

Example candidate response – high

2 The following trial balance was extracted from the books of Peng on 31 August 2012. It was prepared by an inexperienced bookkeeper and failed to balance.

For Examiner's Use

Peng Trial Balance at 31 August 2012		
	Dr \$	Cr \$
Capital	18 240	
Bank overdraft	3 000	
Fixtures and fittings	14 100	
Provision for depreciation – fixtures and fittings		8 800
Inventory	14 200	
Trade receivables	12 300	
Trade payables	9 900	
Revenue	110 000	
Purchases		51 000
Discount received	1 800	
Wages and salaries		26 000
Sundry expenses	34 000	
Discount allowed		620
	<u>217 540</u>	<u>86 420</u>

REQUIRED

(a) Prepare the corrected trial balance at 31 August 2012. Show any difference you find as a balance on an appropriate account.

Peng
Trial Balance at 31 August 2012

	Debit \$	Credit \$
Capital		18 240
Bank overdraft		3 000
Fixtures and fittings	14 100	
Provision for depreciation – fixtures and fittings		8 800
Inventory	14 200	
Trade receivables	12 300	
Trade payables		9 900
Revenue		110 000
Purchases	51 000	
Discount received		1 800
Wages and salaries	26 000	
Sundry expenses	34 000	
Discount allowed	620	
<i>Suspense</i>	480	
	<u>151 740</u>	<u>151 740</u>

(9)

Examiner comment – high

- (a)** The candidate made correct entries for all the items in the trial balance. The difference on the trial balance was correctly shown as being a balance on the suspense account. The difference between the two totals was correctly calculated as \$480, but this should have been entered in the credit column with the totals being \$152 220. An own figure mark could not be awarded for the balancing amount as, because it was in the debit column, the trial balance did not actually balance. **7/9**
- (b)** The candidate correctly identified the type of error made in items 1-3 in the question. It would have been preferable to show the notes relating to the correction of the errors elsewhere. **3/3**
- (c)** Once again, the candidate produced a very good answer, the only error was to credit discount received and discount allowed with \$240 each, rather than crediting discount received with \$480. Candidates were informed that narratives were not required so, although the candidate was not penalised for doing more than they were asked to, they wasted a little time which could have been utilised elsewhere. It is not necessary to include the word “to” before the credit entries, and it would have been preferable to show the notes relating to the correction of the errors elsewhere. **7/8**

Total mark awarded = 17 out of 20

Example candidate response – middle

- 2 The following trial balance was extracted from the books of Peng on 31 August 2012. It was prepared by an inexperienced bookkeeper and failed to balance.

For Examiner's Use

Peng
Trial Balance at 31 August 2012

	Dr \$	Cr \$
Capital	18 240	
Bank overdraft	3 000	
Fixtures and fittings	14 100	
Provision for depreciation – fixtures and fittings		8 800
Inventory	14 200	
Trade receivables	12 300	
Trade payables	9 900	
Revenue	110 000	
Purchases		51 000
Discount received	1 800	
Wages and salaries		26 000
Sundry expenses	34 000	
Discount allowed		620
	<u>217 540</u>	<u>86 420</u>

REQUIRED

- (a) Prepare the corrected trial balance at 31 August 2012. Show any difference you find as a balance on an appropriate account.

210560 Dr: 73400
192240 11760 Peng
 Trial Balance at 31 August 2012

	Debit \$	Credit \$
Capital		19240
Bank overdraft		3000
Fixtures and fittings	14100	
Provision for depreciation – fixtures and fittings		8800
Inventory	14200	
Trade receivables	12300	
Trade payables		9900
Revenue	110000	
Purchases	51000	
Discount received	1800	
Wages and salaries		26000
Sundry expenses		34000
Discount allowed		620
	<u>203400</u>	<u>100560</u>

43400 *210560* [9]

Additional information:

The following errors were later discovered:

- 1 A sale of goods, \$200, to A. Winscom had been posted to the account of W. Wilson.
- 2 A purchase of fixtures, \$900, had been posted to the purchases account.
- 3 Wages, \$1500, had been debited to the bank and credited to the wages account.
- 4 Discount received, \$240, had been correctly entered in the cash book and had been debited to the discount received account.

(b) Name the type of errors in 1 to 3 above.

- 1 Error of Principle
- 2 Error of commission
- 3 complete reversal complete reversal [3]

(c) Prepare journal entries to correct the errors in 1 to 4 above. Narratives are **not** required.

Journal		Dr	Cr
		\$	\$
<u>Sales</u>		<u>200</u>	
<u>W. Wilson</u>			<u>200</u>
<u>W. Winscom</u>			<u>200</u>
<u>Fixtures</u>		<u>900</u>	
<u>Purchase 9/c</u>			<u>900</u>
<u>Wages</u>		<u>1500</u>	
<u>Bank</u>			<u>1500</u>
<u>Discount received</u>		<u>240</u>	
<u>Cash</u>			<u>240</u> [8]

[Total: 20]

Examiner comment – middle

- (a)** The candidate made correct entries in the trial balance for capital, bank overdraft, trade payables and purchases. The entries for discount received and wages and salaries were incorrect.

The two columns of the trial balance showed different totals. If the candidate had inserted a figure to balance the columns an own figure mark would have been awarded. If this difference had been labelled "suspense" a further mark would have been awarded. **4/9**

- (b)** The candidate incorrectly identified the first two errors. The first error involved entering an item in the wrong person's account and was an error of commission. The second error involved confusing capital and revenue expenditure and was an error of principle. The third error was correctly identified. **1/3**

- (c)** In the first journal entry no entry in the sales account was required: it was a transfer from Wilson to Winscom. The second journal entry was completely correct. The accounts were correctly identified in the third journal entry, but the amount should have been \$3000. Where an entry is reversed it is necessary to double the original amount when correcting the error. The amount should also have been doubled in the final journal entry. The entries should have been a credit to the discount received and a debit to the suspense account. **3/8**

Total mark awarded = 8 out of 20

Example candidate response – low

- 2 The following trial balance was extracted from the books of Peng on 31 August 2012. It was prepared by an inexperienced bookkeeper and failed to balance.

For
Examiner's
Use

Peng Trial Balance at 31 August 2012		
	Dr \$	Cr \$
Capital	18 240	
Bank overdraft	3 000	
Fixtures and fittings	14 100	
Provision for depreciation – fixtures and fittings		8 800
Inventory	14 200	
Trade receivables	12 300	
Trade payables	9 900	
Revenue	110 000	
Purchases		51 000
Discount received	1 800	
Wages and salaries		26 000
Sundry expenses	34 000	
Discount allowed		620
	<u>217 540</u>	<u>86 420</u>

REQUIRED

- (a) Prepare the corrected trial balance at 31 August 2012. Show any difference you find as a balance on an appropriate account.

Peng
Trial Balance at 31 August 2012

	Debit \$	Credit \$
Capital	18 240	
Bank overdraft	3 000	3 000
Fixtures and fittings	14 100	
Provision for depreciation – fixtures and fittings	8 800	8 800
Inventory	14 200	
Trade receivables	12 300	
Trade payables	9 900	
Revenue	110 000	
Purchases		51 000
Discount received	1 800	
Wages and salaries		26 000
Sundry expenses	34 000	
Discount allowed		620
Suspense		181 20
	<u>217 540</u>	<u>217 540</u>

[9]

Additional information:

The following errors were later discovered:

- 1 A sale of goods, \$200, to A. Winscom had been posted to the account of W. Wilson.
- 2 A purchase of fixtures, \$900, had been posted to the purchases account.
- 3 Wages, \$1500, had been debited to the bank and credited to the wages account.
- 4 Discount received, \$240, had been correctly entered in the cash book and had been debited to the discount received account.

For
Examiner's
Use

(b) Name the type of errors in 1 to 3 above.

- 1 Error of principle
- 2 Error of omission
- 3 Error of Commission. [3]

(c) Prepare journal entries to correct the errors in 1 to 4 above. Narratives are **not** required.

Journal		Dr \$	Cr \$
1. A. ^{Winscom} Wilson		200	
A. Wilson			200
2. ^{Suspense} Purchases		900	
Suspense purchases			900
3. ^{Wages account} Bank		1500	
Suspense			1500
4. ^{Dis. Suspense} Discount Received		240	
Discount Received			240

[Total: 20]

Examiner comment – low

- (a) The candidate did not have a thorough knowledge of how to prepare a trial balance and many of the account balances were entered in the wrong column. Despite this, the candidate obviously appreciated the procedure to follow if a trial balance does not balance. Marks were awarded for an own figure difference on the trial balance and for correctly indicating that this would be transferred to the suspense account. **1/9**
- (b) The candidate obviously knew the types of errors which would not be revealed by a trial balance, but was unable to relate this knowledge to the specific errors listed in the question. **0/3**
- (c) The candidate realised that A Winscom’s account had to be debited and A Wilson’s account had to be credited, but made the error of debiting \$400 instead of \$200. In the second entry, the candidate correctly credited the purchases account, but debited suspense instead of fixtures. In the third entry, the candidate correctly debited the wages account, but failed to appreciate that, where an entry is reversed, it is necessary to double the original amount when correcting the error. The credit should have been to the bank and not the suspense account. The candidate correctly identified both the accounts in the final journal entry, but used an incorrect figure. **2/8**

Total mark awarded = 3 out of 20

Question 3

Mark scheme

- 3 (a) Individual accounts of e.g. trade receivables, maintained
Balances available at all times
Each transaction recorded for ease of reference
Other valid reasons
(1) × 2 points [2]

(b) Leong

Statement of Affairs at 30 September 2012

	\$	\$	
Non-current assets			
Motor vehicle		7 700	(1)
Current assets			
Inventory	11 600		
Trade receivables (6 500 – 500)	6 000		(2)
Other receivables (350 + 100)	450		(2)
Bank deposit	2 600		
Cash	<u>50</u>		
	20 700		(1)
Current liabilities			
Trade payables	8 100		
Other payables	<u>900</u>		
	9 000		(1)
Net current assets		<u>11 700</u>	
		19 400	
Non current liabilities			
Loan		<u>(9 000)</u>	(1)
		<u>10 400</u>	
Capital		<u>10 400</u>	(2 or 1 of) [10]

(c)	\$		
Opening capital	6 000	(1)	
Profit for the year	<u>13 200</u>	(1 of)	
19 200			
Drawings	<u>(8 800)</u>	(1)	
Closing capital	<u>10 400</u>	(1 of)	Accept alternative formats [4]

(d) (i)	130 hours × \$6	= \$780	
	10 hours × \$9	= <u>\$90</u>	
		\$870	(1)
	Less tax	<u>\$145</u>	
	Net pay	<u>\$725</u>	(1) [2]
(ii)	Gross pay	\$870	
	Employers social security	<u>\$87</u>	(1 of)
	Total cost of employing Fan	<u>\$957</u>	(1 of) [2]

[Total: 20]

Example candidate response – high

- 3 Leong commenced business on 1 October 2011 with a capital of \$6000. Leong has not maintained a full set of accounting records. The following information is available on 30 September 2012:

For
Examiner's
Use

	\$
Trade receivables	6 500
Trade payables	8 100
Inventory	11 600
Prepaid expenses	350
Bank deposit	2 600
Motor van	7 700
Accrued expenses	900
7% Bank loan repayable 1 May 2018	9 000
Cash	50
Capital	10 200

Additional information at 30 September 2012:

- Trade receivables include a sum of \$500 which should be written off as a bad debt.
- Interest on the bank deposit account, \$100, had not been credited to the account by the bank.

REQUIRED

- (a) State **two** benefits to Leong of maintaining a full set of double entry accounts.

- He will be able to determine the true profit for the year.....
- Final accounts can be prepared to be used for analysis and interpretation. [2]

(b) Prepare the statement of affairs at 30 September 2012.

Leong			
Statement of Affairs at 30 September 2012			
Non-Current Assets	\$	\$	Owner's Equity
Motor Van	7700	7700	7700
<u>Current Assets</u>			
Trade receivables	6500		
Less: Bad debt	500	6000	
Inventory	11600		
Prepaid expenses	350		
Bank deposit	2600		
Less: Interest on deposit	100	2500	
Cash	50	20500	
<u>Less: Current Liabilities</u>			
Trade payables	8100		
Accrued expenses	900		
Bank Loan	9000	18000	
Working Capital			2500
Net Assets			<u>10200</u>
<u>Financed by:</u>			
Capital, 30 Sep 2012			<u>10200</u>

For
Examiner's
Use

[10]

- (c) During the year, Leong took \$8800 drawings from the business. Calculate the profit for the year ended 30 September 2012.

	\$
Capital, 30 Sep 2012	10 200
Less: Capital, 1 Oct 2011	6 000
	4 200
Add: Drawings	8 800
Net profit	<u>13 000</u>

[4]

During the month of August, Leong employed Fan as a sales assistant. Fan was paid for 130 hours at \$6 per hour and ten hours at time and a half. Tax and social security deducted from gross pay was \$145. Leong also has to pay 10% of Fan's gross pay for employer's social security contributions.

REQUIRED

- (d) (i) Calculate the net payment to Fan.

	\$
130 h x \$6	780
Add: 10 h x 9	90
Gross pay	870
Less: 10% Social Security Contribution	87
Tax & social security	145
Net pay	<u>638</u>

[2]

- (ii) Calculate the total cost to Leong of employing Fan for the month of August.

	\$		\$	
Gross pay	Net pay	870	Gross pay	870
10% S.S. Contribution	87	870	10% S.S. Contri.	87
Tax & social security	145	870	Tax & S.S.	145
			Total cost	<u>1102</u>

[2]

[Total: 20]

Examiner comment – high

- (a)** The candidate listed two benefits of maintaining double entry accounts. It was decided that these were both on the same point of preparing financial statements (which would involve the calculation of the profit for the year) so only one mark was awarded. **1/2**
- (b)** A well-presented statement of affairs was produced in which the assets and liabilities were divided into their appropriate sections. The only error was to deduct the bank interest from the bank deposit account, this should have been added. This error also meant that the candidate was awarded an own figure mark for the capital instead of two marks for the correct capital figure. **7/10**
- (c)** Using the capital calculated in **(b)**, the candidate produced a clear and accurate calculation of the profit for the year. Full marks were earned. **4/4**
- (d) (i)** The candidate correctly calculated the total gross pay of \$870. The 10% social security contribution should not have been deducted from the gross pay as this is paid by the employer and not the employee. Because this extraneous item was included the second mark could not be awarded. **1/2**
- (ii)** The candidate correctly started with the employee's gross pay. The social security contribution was correctly deducted for which a mark was awarded. Once again an extraneous item in the calculation (the employee's tax and social security payments) meant that the second mark could not be awarded. **1/2**

Total mark awarded = 14 out of 20

Example candidate response – middle

- 3 Leong commenced business on 1 October 2011 with a capital of \$6000. Leong has not maintained a full set of accounting records. The following information is available on 30 September 2012:

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	\$
Trade receivables	6 500
Trade payables	8 100
Inventory	11 600
Prepaid expenses	350
Bank deposit	2 600
Motor van	7 700
Accrued expenses	900
7% Bank loan repayable 1 May 2018	9 000
Cash	50

Additional information at 30 September 2012:

- 1 Trade receivables include a sum of \$500 which should be written off as a bad debt.
- 2 Interest on the bank deposit account, \$100, had not been credited to the account by the bank.

REQUIRED

- (a) State two benefits to Leong of maintaining a full set of double entry accounts.

- 1 It will be easy for him to calculate his stock at the end of the year.
- 2 It helps him to keep to all the records for the year. [2]

- (c) During the year, Leong took \$8800 drawings from the business. Calculate the profit for the year ended 30 September 2012.

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closing Capital	2000
Add drawings	8800
	10800
less Capital introduced	6000
Profit	4800 (4)

During the month of August, Leong employed Fan as a sales assistant. Fan was paid for 130 hours at \$6 per hour and ten hours at time and a half. Tax and social security deducted from gross pay was \$145. Leong also has to pay 10% of Fan's gross pay for employer's social security contributions.

REQUIRED

- (d) (i) Calculate the net payment to Fan.

Salaries $(130 \times 6) + (10 \times \frac{1}{2})$	785
Tax and social security	145
net pay	930
	(2)

- (ii) Calculate the total cost to Leong of employing Fan for the month of August.

Tax & social security	145
	14.5
net pay	930
total cost	1089.5
	(2)

[Total: 20]

Examiner comment – middle

- (a)** The candidate suggested two benefits of maintaining double entry accounts. Neither of these reasons was regarded as adequate and so no marks were awarded. **0/2**
- (b)** The candidate produced a horizontal statement of affairs, grouping the assets together on the left and the liabilities on the right. As this was a statement of affairs rather than a statement of financial position (balance sheet) it was not regarded as necessary to sub-divide the assets and liabilities. Marks were awarded for the motor van and the prepaid expenses. The trade payables, trade receivables, accrued expenses and bank deposit interest were incorrectly classified, the bad debts should have been deducted from the trade receivables, and the bank loan was completely omitted. The candidate realised that it was necessary to insert a figure for capital and was awarded an own figure mark. **3/10**
- (c)** Despite earning only a few marks in **(b)**, the candidate produced a clear and accurate calculation of the profit for the year. The correct adjustments were made to the capital calculated in **(b)** and full marks were earned. **4/4**
- (d) (i)** The candidate correctly calculated the employee's standard pay of \$780. The overtime pay should have been 10 hours multiplied by \$9 (\$6 + \$3), and the given figure of \$145 for tax and social security should have been deducted from the gross pay. **0/2**
- (ii)** An understanding of the calculation of wage calculations was required in order to answer this question. The answer should have started with the gross pay from **(a)** to which the employer's social security contribution of 10% of gross pay should have been added. **0/2**

Total mark awarded = 7 out of 20

Example candidate response – low

- 3 Leong commenced business on 1 October 2011 with a capital of \$6000. Leong has not maintained a full set of accounting records. The following information is available on 30 September 2012:

For
Examiner's
Use

	\$
Trade receivables	6 500 ✓
Trade payables	8 100 ✓
Inventory	11 600 ✓
Prepaid expenses	350 ✓
Bank deposit	2 600 ✓
Motor van	7 700 ✓
Accrued expenses	900 ✓
7% Bank loan repayable 1 May 2018	9 000
Cash	50 ✓

Additional information at 30 September 2012:

- 1 Trade receivables include a sum of \$500 which should be written off as a bad debt.
- 2 Interest on the bank deposit account, \$100, had not been credited to the account by the bank.

REQUIRED

- (a) State two benefits to Leong of maintaining a full set of double entry accounts.

- 1 Easily for the accountant to calculate the amount.
- 2 [2]

(b) Prepare the statement of affairs at 30 September 2012.

For
Examiner's
Use

Leong
Statement of Affairs at 30 September 2012

	£		£
Fixed Assets:		Owner's equity:	
Motor van	7700	Capital	6000
Current Assets:		Current Liabilities:	
Trade Receivables	70	Bank deposits	2700
	6500	Prepaid expenses	350
Inventory	11600	Trade payables	800
Accrued expenses	900	Bank loan	630
Cash	50		

[10]

- (c) During the year, Leong took \$8800 drawings from the business. Calculate the profit for the year ended 30 September 2012.

Opening capital :	\$ 6000
Net profit (1 October 2011) :	\$19150
Drawings :	(\$ 8800)
Net profit (30 September 2012) :	\$ 16350
.....[4]	

During the month of August, Leong employed Fan as a sales assistant. Fan was paid for 130 hours at \$6 per hour and ten hours at time and a half. Tax and social security deducted from gross pay was \$145. Leong also has to pay 10% of Fan's gross pay for employer's social security contributions.

REQUIRED

- (d) (i) Calculate the net payment to Fan.

	\$
130 hours × \$ 6	= 780
10 hours × \$ 6	= 60
(30 mins) 1/2 hours × \$ 6	= 180
Net payment	= \$ 1020
.....[2]	

- (ii) Calculate the total cost to Leong of employing Fan for the month of August.

Net payment	= \$1020
Gross pay	= (\$ 145)
\$ 875 × 10%	= 87.5 × 30 days
	= \$ 2625
.....[2]	

[Total: 20]

Examiner comment – low

- (a)** The candidate was only able to suggest one benefit of maintaining double entry accounts. This was far too vague to allow a mark to be awarded. **0/2**
- (b)** The candidate produced a horizontal statement of affairs, grouping the assets together on the left and the liabilities on the right. The assets were sub-divided and liabilities were divided into current liabilities and capital. Marks were awarded for the motor van and the trade payables. However, the bad debt was added to the trade receivables when it should have been deducted. The prepaid and accrued expenses, as well as the bank deposit account, were incorrectly classified, and the candidate included loan interest of \$630 instead of the loan itself.

A figure representing the capital at the date of the statement of affairs should have been inserted to make the statement balance. The candidate clearly understood that an item for capital was required, but used the opening capital of \$6000. **2/10**

- (c)** The calculation of the profit for the year should have shown the difference in the opening and closing capitals for adjusted with for the drawings. Marks were awarded for the correct treatment of the opening capital and the drawings. It is unclear how the item described as “net profit (1 October 2011)” was calculated and this was regarded as an extraneous item. An own figure mark could not be awarded for the answer to the calculation because of the extraneous item and because a closing capital amount must be included in such a calculation. **2/4**
- (d) (i)** An understanding of the calculation of employee’s pay was required in order to answer this question. The candidate correctly calculated the employee’s standard pay of \$780. The overtime pay should have been 10 hours multiplied by \$9 (\$6 + \$3). Once the gross pay had been calculated, \$145 for tax and social security should have been deducted. **0/2**
- (ii)** Candidates were required to have an understanding of wage calculations in order to attempt this question. The candidate started the answer with the final figure of net pay from **(a)** and the employee’s tax and social security contribution of \$145 was then deducted, but this should not be a cost to the employer. The calculation should have shown the employee’s gross pay plus the employer’s social security contribution of 10% of gross pay. **0/2**

Total mark awarded = 4 out of 20

Question 4

Mark scheme

- 4 (a) (i)**
- | | \$000 | |
|------------------------------------------|-----------|--------------------|
| Gross profit (Cost of sales \$320 × 25%) | 80 | (1) |
| Expenses | <u>60</u> | |
| Profit for the year | <u>20</u> | (2 or 1 of) |
- [3]**
- (ii)** Turnover of inventory $\frac{320}{(25 + 65)/2} = 7.1 \text{ times}$ **(3)** **[3]**
- (iii)** Gross profit/sales percentage $\frac{80 \times 100}{400} = 20\%$ **(3)** **[3]**
- (iv)** Net profit to sales percentage $\frac{20 \times 100}{400} = 5\%$ **(3)** **[3]**
- (v)** Working capital ratio (current ratio) $\frac{65 + 70}{75 + 15} = 1.5:1$ **(3)** **[3]**
- (b)** Reduced mark up/selling price on goods
Increased advertising and market awareness
Improved quality of the goods purchased
Improved the range of goods for sale
Other valid points accepted
- (1) × 2 points** **[2]**
- (c)** The ratio is below the recommended 2:1, but is within an acceptable range.
Other valid points accepted.
- (2) × 1 point** **[2]**
- (d)** Sell surplus non-current assets
Obtain long term loan
Introduce additional capital
Other valid points accepted
- (1) × 1 point** **[1]**

[Total: 20]

Example candidate response – high

- 4 Chow is in business buying and selling goods on credit. The following information was available:

	\$	
Cost of sales	320 000	
Inventory at 1 October 2011	25 000	
Inventory at 30 September 2012	65 000	markup = $\frac{G.P.}{C.S.} \times 100$
Expenses	60 000	
Trade receivables	70 000	margin = $\frac{G.P.}{Sales} \times 100$
Trade payables	75 000	
Bank overdraft	15 000	
Mark up	25%	$Sales - C.S. = G.P.$ $G.P. = Sales - C.S.$ $G.P. \times 100 = Sales \times \text{margin}$

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REQUIRED

- (a) Calculate the following for the year ended 30 September 2012.

- (i) Profit for the year

$$\text{markup} = \frac{G.P.}{C.S.} \times 100$$

$$= \frac{?}{320\,000} \times 100 = 25\%$$

$$\text{profit} = \$ 80\,000$$

[3]

- (ii) Rate of turnover of inventory

$$\text{Average stock} = \frac{25\,000 + 65\,000}{2}$$

$$= \$ 45\,000$$

$$\text{turnover} = \frac{320\,000}{45\,000}$$

$$= 7.11 \text{ times}$$

[3]

- (iii) Gross profit to sales percentage

$$\frac{G.P.}{Sales} \times 100$$

$$= \frac{80\,000}{400\,000} \times 100$$

$$= 20\%$$

[3]

(iv) Net profit to sales percentage

$$\frac{\text{Net profit}}{\text{Sales}} \times 100$$

$$\frac{20\,000}{260\,000} \times 100$$

$$= 7.7\%$$

G.P. - Exp. = Net profit
80 000 - 20 000 = 20 000

[3]

(v) Working capital ratio (current ratio)

$$W - C = 95\,000 - 90\,000$$

$$= \text{₹ } 5\,000$$

$$\frac{185\,000 - 20\,000}{45\,000} = 1 : 1$$

[3]

(b) Chow's rate of turnover of inventory last year was 4 times. Suggest two possible reasons for any change between the years.

- 1 Last year the sales price might be higher than this year.
 - 2 Last year the quantity of goods were low than this year.
- [2]

(c) Comment upon Chow's working capital ratio (current ratio) at 30 September 2012.

Not very good. But one asset is available for one liability.

[2]

(d) Suggest one way in which Chow could improve his liquidity.

Reduce selling price into a reasonable price.

[1]

[Total: 20]

Examiner comment – high

- (a) (i)** The candidate correctly calculated the gross profit of \$80 000. The expenses should have then been deducted from this to arrive at the profit for the year of \$20 000. **1/3**
- (ii)** The candidate correctly calculated the average stock and divided this into the cost of sales. Full marks were awarded. **3/3**
- (iii)** The gross profit as a percentage of sales was correctly calculated and the candidate was awarded full marks. **3/3**
- (iv)** The calculation of the net profit was shown in this section and this was used to correctly calculate the net profit as a percentage of sales. **3/3**
- (v)** The current liabilities were correctly calculated. It would appear that the candidate used the opening inventory rather than the closing inventory in the calculation of the current assets. The candidate then calculated the ratio of current assets to current liabilities. Only one mark could be awarded as no own figure marks were available in this section of the question. **1/3**
- (b)** The candidate correctly suggested that the selling price may have been lower than it was in the previous year. The second suggestion about the quality of goods was not regarded as an acceptable reason. If this had been expanded with an explanation about this resulting in an increase in sales a mark would have been awarded. **1/2**
- (c)** Using the ratio of 1:1 calculated in **(a)(v)** the candidate correctly made the judgement that the working capital position was not very good. **2/2**
- (d)** Reducing the selling price of goods will not necessarily improve the liquidity of the business. No marks could be awarded for this statement. **0/1**

Total mark awarded = 14 out of 20

Example candidate response – middle

4 Chow is in business buying and selling goods on credit. The following information was available:

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	\$
Cost of sales	320 000
Inventory at 1 October 2011	25 000
Inventory at 30 September 2012	65 000
Expenses	60 000
Trade receivables	70 000
Trade payables	75 000
Bank overdraft	15 000
Mark up	25%

REQUIRED

(a) Calculate the following for the year ended 30 September 2012.

(i) Profit for the year

$$\begin{aligned} \text{Gross Profit} &= \text{Sales} - \text{Cost of sales} \\ &= \frac{25}{100+25} \times 320\,000 \\ &= 64\,000 \\ \therefore \text{Sales} &= 384\,000 \quad \therefore \text{Gross Profit} = 64\,000 \quad [3] \\ \text{Net Profit} &= 3\,4000 \end{aligned}$$

(ii) Rate of turnover of inventory

$$\begin{aligned} \text{Rate of turnover of inventory} &= \frac{\text{Cost of Sales}}{\text{Average Inventory}} \\ \text{Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{25\,000 + 65\,000}{2} = 45\,000 \\ \therefore \text{Rate of turnover of inventory} &= \frac{320\,000}{45\,000} = 7.11 \div 1 \quad [3] \\ \text{Ans: } &7.1:1 \end{aligned}$$

(iii) Gross profit to sales percentage

$$\begin{aligned} \frac{\text{Gross Profit}}{\text{Sales}} \times 100 \\ &= \frac{64\,000}{384\,000} \times 100 \\ &= 16.66\% \end{aligned} \quad [3]$$

(iv) Net profit to sales percentage

$$\begin{aligned} \text{Net Profit} &= \text{Gross Profit} - \text{Expenses} \\ &= 64000 - 60000 = \$ 4000 \\ \frac{4000}{364000} \times 100 &= 1.04\% \end{aligned}$$

[3]

(v) Working capital ratio (current ratio)

$$\begin{aligned} \text{Working Capital} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\ \text{C.A.} &= 65000 + 70000 = \$ 135000 \\ \text{C.L.} &= \$ 90000 \\ \therefore \text{Working Capital} &= 1.5:1 \end{aligned}$$

[3]

(b) Chow's rate of turnover of inventory last year was 4 times. Suggest two possible reasons for any change between the years.

1. Chow's cost of sales has increased and therefore this has made his rate of turnover also to increase.
2. Chow's average inventory has also ^{decreased} ~~increased~~ thus leading to an increase in his rate of turnover.

[2]

(c) Comment upon Chow's working capital ratio (current ratio) at 30 September 2012.

~~This indicates that Chow's can only~~ ^{make} ~~use~~ ~~his~~ ~~on~~ ~~his~~ ~~every~~ ~~\$1~~ ~~capital~~. This shows Chow's could only make ~~use~~ ~~of~~ ~~his~~ ~~every~~ ~~\$1~~ ~~capital~~.

[2]

(d) Suggest one way in which Chow could improve his liquidity.

Chow could improve his liquidity by making less expenses which will lead to a greater profit and then he can be able to improve his liquidity.

[1]

[Total: 20]

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Examiner comment – middle

- (a) (i)** The candidate calculated the gross profit on the basis that it equalled one fifth rather than one quarter of the sales. The final answer was \$40 000 which was possibly the expenses deducted from the candidate's gross profit. Because no calculation was shown for this, no marks could be awarded: it is only an assumption that the expenses were deducted from the gross profit. **0/3**
- (ii)** The candidate correctly divided the cost of sales by the average inventory. The answer was expressed as a ratio: it should have been expressed as a number of times. **2/3**
- (iii)** The candidate used the figures previously calculated for sales and gross profit. As the mark scheme did not provide for any own figures in this section of the question no marks could be awarded for these figures. The question required the gross profit as a percentage of sales so the answer should have been expressed as a percentage and not as a ratio. **0/3**
- (iv)** The candidate again used figures previously calculated and expressed the answer in the form of a ratio. As with **(iii)** no own figures marks were available. The answer should have been expressed as a percentage. **0/3**
- (v)** Full marks were awarded for this section of the question. The candidate correctly calculated the current assets and the current liabilities and calculated the working capital ratio. **3/3**
- (b)** The candidate offered two acceptable reasons to account for the increase in the rate of inventory turnover. Full marks were awarded. **2/2**
- (c)** Candidates were expected to comment on the trader's working capital. Comments should have related to the current assets and the current liabilities. The answer provided was not appropriate and no marks could be awarded. **0/2**
- (d)** The candidate correctly suggested that a reduction in expenses could improve the liquidity of the business and was awarded the available mark. **1/1**

Total mark awarded = 8 out of 20

Example candidate response – low

4 Chow is in business buying and selling goods on credit. The following information was available:

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Margin $\frac{G.P.}{S}$

Mark up $\frac{C.O.S.}{S}$

Cost of sales	320 000
Inventory at 1 October 2011	25 000
Inventory at 30 September 2012	65 000
Expenses	60 000
Trade receivables	70 000
Trade payables	75 000
Bank overdraft	15 000

$\frac{1}{4} \times 100 = 25\%$
 $320000 \times 4 = 1280000$
 Sales = 1280000

Mark up = $\frac{C.O.S.}{S} \times 100 = 25\%$

1280000

REQUIRED

(a) Calculate the following for the year ended 30 September 2012.

(i) Profit for the year

Sales	1280000
Less Open Cost of sales	(320000)
Gross profit	960000

[3]

(ii) Rate of turnover of inventory

$$\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{320000}{45000} = 7.1$$

$$\text{Average stock} = \frac{\text{Opening} + \text{Closing}}{2} = \frac{25000 + 65000}{2} = 45000$$

7.1 times ←

[3]

(iii) Gross profit to sales percentage

$$\frac{G.P.}{S} \times 100 = \frac{960000}{1280000} \times 100 = 75\% \leftarrow$$

[3]

G.P 960000

11 less Expenses (60000)

Bank Overdraft (15000)

N.P 885000

(iv) Net profit to sales percentage

$$\frac{\text{Net Profit}}{\text{Sales}} \times 100$$

$$\frac{885000}{1280000} \times 100 = 69.1\%$$

[3]

(v) Working capital ratio (current ratio)

Closings 65000 Debtors 70000 Bank 15000 <hr/> 150000	Current Asset	150000 = 2
	Current liabilities	75000
		2:1 ←

[3]

(b) Chow's rate of turnover of inventory last year was 4 times. Suggest two possible reasons for any change between the years.

1. He had sold more product than last year, then his stock of turnover was 7.

2.

[2]

(c) Comment upon Chow's working capital ratio (current ratio) at 30 September 2012.

Current Asset	150000 = 2
Current liabilities	75000
	2:1 ←

[2]

(d) Suggest one way in which Chow could improve his liquidity.

Chow could improve his liquidity by make a promotion or make an advertising on his product. So they will buy his product and then he can improve his liquidity.

[Total: 20]

Examiner comment – low

- (a) (i)** The candidate obviously knew that the sales minus the cost of sales equalled the gross profit. The sales figure appears to be the cost of sales multiplied by four. The correct method of calculating the sales was to start with the cost of sales and add 25%. The expenses of \$60 000 should have been deducted from the gross profit to arrive at the profit for the year. **0/3**
- (ii)** The candidate correctly calculated the average stock and divided this into the cost of sales. Full marks were awarded. **3/3**
- (iii)** The candidate used figures previously calculated for sales and gross profit and expressed the answer in the form of a percentage. As the mark scheme did not provide for any own figures in this section of the question no marks could be awarded for either the calculation or the answer. **0/3**
- (iv)** As with **(iii)** no own figures marks were available. The candidate clearly understood that the expenses must be deducted from the gross profit to ascertain the profit for the year. The bank overdraft was incorrectly included in the calculation, which also contained an arithmetical error. The candidate attempted to calculate the net profit as a percentage of the sales (from a previous calculation). Once again, there was an arithmetical error. **0/3**
- (v)** The formula for the calculation of the current ratio was correctly stated. The bank overdraft was incorrectly regarded as a current asset, resulting in wrong totals for both the current assets and the current liabilities. The candidate then calculated the ratio of current assets to current liabilities. No marks could be awarded as no own figure marks were available in this section of the question. **0/3**
- (b)** The candidate was able to suggest one suitable reason for the increase in the rate of inventory turnover. **1/2**
- (c)** The question asked candidates to comment on the trader's working capital ratio. The candidate simply repeated the formula and the calculation of the ratio from **(a)(v)** of the question and did not made any appropriate comment. **0/2**
- (d)** Candidates were required to state one way in which the trader could improve his liquidity. The candidate suggested using promotion or advertising so that his product could be sold. This was not regarded as an acceptable reason. If this had been expanded with an explanation about this resulting in an increase in cash sales a mark would have been awarded. **0/1**

Total mark awarded = 4 out of 20

Question 5

- 5 The following balances were extracted from the books of Khan, a manufacturer, on 31 July 2012:

	\$	
Factory equipment (cost)	160 000	
Office equipment (cost)	40 000	
Provisions for depreciation:		
Factory equipment	56 000	
Office equipment	26 000	
Office equipment disposal account	500	Dr
Bank	9 700	Dr
Capital	200 000	
Inventory at 1 August 2011:		
Raw materials	26 000	
Work-in-progress	36 000	
Finished goods	48 000	
Purchases of raw materials	183 000	
Direct factory expenses	38 000	
Indirect factory expenses	19 700	
Production wages	164 500	
Rent and rates	22 000	
Production management salaries	63 000	
Office wages and salaries	69 500	
Revenue	680 000	
Marketing expenses	27 850	
Distribution costs	62 000	
General office expenses	6 700	
8% Loan – repayable 31 December 2025	35 000	
Loan interest paid	2 100	
Provision for doubtful debts	3 000	
Trade receivables	75 000	
Trade payables	53 550	

Additional information at 31 July 2012:

- 1 Inventory was valued as follows:

	\$
Raw materials	29 000
Work-in-progress	40 000
Finished goods	55 000

- 2 Production wages, \$6500, were accrued. Marketing expenses, \$1350, were prepaid.
- 3 Rent and rates are to be apportioned on the basis of area occupied. Three-quarters of the area is occupied by the factory and one-quarter by the administration.
- 4 Contained within the office wages and salaries is \$8000 taken by Khan. He also took finished goods for his own personal use, \$1500.
- 5 Depreciation is to be charged as follows:
 Factory equipment at 20% per annum using the diminishing (reducing) balance method
 Office equipment at 10% per annum on cost using the straight-line method.
- 6 The provision for doubtful debts is to be maintained at 6% of trade receivables.

REQUIRED

- (a) Prepare the manufacturing account for the year ended 31 July 2012. Show clearly the prime cost and cost of production. [14]
- (b) Prepare the income statement for the year ended 31 July 2012. [13]
- (c) Prepare the balance sheet at 31 July 2012. [13]

[Total: 40]

Mark scheme

Khan				
Manufacturing Account for the year ended 31 July 2012		\$	\$	
Inventory of raw materials at 1 August 2011	26 000			(1)
Purchases of raw materials	<u>183 000</u>			(1)
			209 000	
Less: Inventory of raw materials at 31 July 2012	<u>29 000</u>			(1)
Cost of raw materials consumed	180 000			(1)
Production wages (164 500 + 6 500)	171 000			(1)
Direct factory expenses	<u>38 000</u>			(1)
Prime cost (1)			389 000	(1 of)
Factory overheads:				
Indirect factory expenses	19 700			(1)
Rent and rates	16 500			(1)
Production management salaries	63 000			(1)
Provision for depreciation of plant and machinery	<u>20 800</u>			(1)
			<u>120 000</u>	
			509 000	
Less Increase in work in progress (36 000 – 40 000)			<u>(4 000)</u>	(1)
Production Cost			<u>505 000</u>	(1) [14]
Income Statement for the year ended 31 July 2012		\$	\$	
Revenue			680 000	(1)
Inventory of finished goods at 1 August 2011	48 000			
Production cost	505 000			(1 of)
Drawings by owner	<u>(1 500)</u>			(1)
			551 500	
Inventory of finished goods at 31 July 2012	<u>(55 000)</u>			
Cost of sales			<u>(496 500)</u>	(1 of)
Gross profit			183 500	
Less				
Rent and rates	5 500			(1)
Office wages and salaries (69 500 – 8 000)	61 500			(1)
Marketing expenses (27 850 – 1 350)	26 500			(1)
Distribution costs	62 000			(1)
General office expenses	6 700			(1)
Loan interest (2 100 + 700)	2 800			(1)
Provision for depreciation on office equipment	4 000			(1)
Loss on disposal	500			(1)
Increase in provision for doubtful debts	<u>1 500</u>			(1)
			<u>(171 000)</u>	
Profit for the year			<u>12 500</u>	[13]

(c)

Balance Sheet at 31 July 2012

	Cost \$	Accumulated depreciation \$	NBV \$	
Non-current assets				
Factory equipment	160 000	76 800	83 200	(1)
Office equipment	<u>40 000</u>	<u>30 000</u>	<u>10 000</u>	(1)
	<u>200 000</u>	<u>106 800</u>	93 200	
Current assets				
Inventory:				
Raw materials	29 000			
Work in progress	40 000			
Finished goods	<u>55 000</u>			
		124 000		(1)
Trade receivables	75 000			
Less: provision for doubtful debts	<u>4 500</u>			
		70 500		(2)
Other receivables (Prepaid marketing)		1 350		(1)
Bank		<u>9 700</u>		
		205 550		
Less: current liabilities				
Trade payables	53 550			(1)
Other payables accrued expenses (6 500 + 700)	<u>7 200</u>			(2)
		(60 750)		
Net current assets			<u>144 800</u>	
			238 000	
Non current liabilities				
8% loan repayable 31 December 2025			<u>(35 000)</u>	(1)
			<u>203 000</u>	
Capital				
Capital		200 000		
Add: Profit for the year		<u>12 500</u>		
		212 500		
Less: Drawings (8 000 + 1 500)		<u>(9 500)</u>		(2)
			<u>203 000</u>	(1 of)

[13]

Example candidate response – high

In the book of Khan

Answer Question 5 on the following pages.

1 Aug 2011 31 July 2012 For Examiners Use

Manufacturing account for the year ended 31 July 2012

	Dr	Cr	Dr
<u>RAW MATERIALS</u>			
Opening Inventory of raw materials		26,000	
+ purchases of raw materials		183,000	
		209,000	
- closing Inventory of raw materials		(29,000)	
<u>Cost of raw materials used/consumed</u>			180,000
<u>Direct expenses</u>			
Factory equipment		16,000	
Direct factory expenses		38,000	
production wages		158,000	212,000
		154,000	208,000
<u>Primo cost</u>			392,000
<u>Indirect expenses:</u>			
Provision for depreciation of factory equipment		20,000	
Indirect factory expenses		19,000	
factory rent and rates		16,500	20,000
production management salaries		63,000	108,000
<u>Gross cost of production</u>			532,000
			512,000
<u>Work in progress:</u>			
Opening Inventory of work in progress			36,000
- closing Inventory of work in progress			(40,000)
<u>Net Cost of production</u>			528,000
			<u>508,000</u>

Income statement for the year ended 31 July 2012		£	£	£
Revenue				620,000
Office equipment disposal account				500
less Cost of sales:- finished goods				<u>620,500</u>
Opening Inventory of finished goods		48,000		
+ Cost of purchases of production		50,800		
Purchases		1,500		
		<u>100,300</u>		
- closing Inventory of goods		<u>(55,000)</u>		
Cost of sales				453,000
Gross Profit				<u>635,700</u>
less expenses:-				
Rent and rates		11,000		
Wages and salaries (69,000-8,000)		61,000		
Marketing expenses payable		29,200		
Distribution cost		62,000		
General office expenses		6,700		
Loan interest paid		2,100		
Interest paid				
Depreciation for office equipment		4,000		
Increase in provision for doubtful debts		1,500		
				<u>178,000</u>
Net profit				<u>457,700</u>

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Balance sheet as at 31 July 2012			For Examiners Use
	Cost	Aggregating Depreciation	Net
<u>Non-current assets</u>			
Office equipment	40000	20800	19200
Factory equipment	160000	-	160000
	<u>200000</u>	<u>20800</u>	<u>179200</u>
<u>Current assets</u>			
Closing Inventory		55000	
Trade receivables	70000		
- provision for doubtful debts	4000	70000	
Cash at bank		9000	
at hand		13000	
marketing expenses prepaid		2000	
Loan interest prepaid		139300	
<u>Current liabilities</u>			
Trade payables	53500		
Production wages accrued	6500	(60000)	
Working Capital			<u>79300</u>
Net assets			<u>258500</u>
financed by			
Capital			200000
+ Net profit			45700
			<u>65700</u>
- Drawings			(9500)
Capital owned			<u>648200</u>
Long term liabilities			
Long loan			350000
Capital employed			<u>683200</u>

Examiner comment – high

- (a)** The candidate produced a very good manufacturing account. The production wages accrued of \$6500 appear to have been deducted from, rather than added to, the wages paid, but no calculation was shown. An amount of \$16 000, described as factory equipment, was incorrectly included in the direct costs, resulting in the figure mark for the prime cost being lost. The cost of production was awarded an own figure mark. The description of the cost of production was not regarded as appropriate. **11/14**
- (b)** The format of the income statement was very good. The cost of production calculated in the manufacturing account was incorrectly transferred to the income statement. Goods for own use were incorrectly described as purchases and were added instead of being deducted. It was not possible to award an own figure gross profit mark as there was an extraneous item (disposal of office equipment). The candidate earned marks for six of the expenses. The amount for rent and rates should have been \$5500 (one quarter of the total amount). Once again the year-end adjustment was incorrectly treated (marketing expenses should have totalled \$26 500) and loan interest of \$700 should have been added to the interest paid. **6/13**
- (c)** The candidate presented the balance sheet in a good style. No marks could be awarded for the net book values of the non-current assets as no depreciation was shown for the factory equipment and the depreciation of the office equipment was incorrect. In the balance sheet of a manufacturing business there are usually three items of inventory, but here only the inventory of finished goods was shown. The provision for doubtful debts was correctly deducted from the trade receivables. Loan interest accrued was incorrectly included as an asset instead of a liability. The working capital was correctly labelled and an own figure mark was awarded. The profit for the year calculated in **(b)** was correctly added to the opening capital and the total drawings were deducted from the capital. It is acceptable to add the long term liability to the capital and the mark was awarded, although it would have been preferable to deduct this from the total of the first section of the balance sheet. **9/13**

Total mark awarded = 26 out of 20

Example candidate response – middle

Answer Question 5 on the following pages.

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manufacturing ac.			
Raw material			
open inventory		26 000	
Purchases of raw material		182 000	
closing inventory		29 000	
Total raw material used			238 000
Working in Process			
opening inventory	36 000		
Production wages	171 000		
Production management salaries	53 000	270 000	270 000
Prime cost			508 000
Less factory overhead			
factory exp		19 700	
Rent		16 500	
marketing exp		26 500	
Direct cost		38 000	(100 700)
			407 300

Income Statement

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Revenue		680 000
less cost of sales		
opening inventory	46 500	
less closing inventory	(35 000)	(8 500)
		671 500
less expenses		
Rent	5 500	
office salaries	61 500	
Distribution cost	62 000	
general office	6 700	(135 700)
Net profit		535 800

Balance Sheet			For Examiner's Use
Factory equip equipments	160 000	76800	83200
office equipment	40000	20000	10000
			93200
Current asset			
Closing inventory		124 000	
Trade receivable		70 500	
marketing exp prepaid		1350	
PFDD		3000	
		198850	
Less current asset liability			
Trade payable	53500		
Production wage due	6500		
Interest on loan	2100	(62100)	(136750)
Net asset			229950
Non Current liability			
financed by			
Capital loan		35000	
Add net profit		535800	
			570800

Examiner comment – middle

- (a)** It is always recommended that candidates provide a suitable heading for all accounting statements. The candidate clearly understood how to calculate the cost of material used. However, the closing inventory was added rather than deducted so the figure mark could not be awarded. The mark for the prime cost figure could not be awarded as extraneous items (work in progress and management salaries) were included in the calculation. The candidate correctly included the factory expenses and factory rent and rates but, as these were deducted from the prime cost instead of being added, no marks could be awarded. **5/14**
- (b)** Once again the heading was incomplete. The candidate clearly understood that the gross profit represents revenue minus the cost of sales. For a manufacturing business the cost of production calculated in the manufacturing account should be included in the calculation of the cost of sales. Goods taken by the proprietor should be shown as a deduction from the opening inventory plus the cost of production, but the candidate appears to have deducted these from the opening inventory. If the gross profit had labelled and correctly calculated on the figures shown it may have been awarded a mark. The candidate correctly deducted expenses from the gross profit to calculate the profit for the year; marks were awarded for the four expenses listed but, as other expenses were omitted, full marks could not be awarded for this part. **4/13**
- (c)** Once again the heading was incomplete. The candidate showed the net book value of the non-current assets correctly and was awarded full marks for this section. The total inventory, net trade receivables and prepaid marketing expenses were correctly stated. The opening provision for doubtful debts was incorrectly listed as a current asset but this was not penalised. In the current liabilities, the trade payables and the accrued wages were correctly stated. The accrued loan interest should have been \$700 rather than \$2100. The own figure mark for the net current assets could not be awarded as it was not labelled. The candidate correctly transferred the profit calculated in **(b)**, but this was added to the loan rather than the opening capital. Drawings were omitted. **8/13**

Total mark awarded = 17 out of 20

Example candidate response – low

Answer Question 5 on the following pages.

Manufacturing account for the year ended 31 July 2012.		For Examiner's Use
opening stock of raw material	29000	
Add purchases of raw material	183000	
	212000	
Less closing stock of raw material	26000	
cost of production:	186000	
- office equipment disposal account	500	
Prime cost		185500
Add direct factory expenses	38000	
Less indirect factory expense	19700	57800
Add production wages	164500	106800
	20000	
Add work in progress at start	20000	
less work in progress at end	36000	20000
cost of material used		102800

Income statement of Khan for the year ended 31 July 2012.

opening stock of finished goods		5000	
Add cost of production		186000	201000
Add other income :-			
Trade receivable			75000
Trade payable			316000
Less EXPENSES :-			
Rent and rates	22000		
Less provision for doubtful debts	4500	17500	
Distribution cost		62000	
Marketing expenses		23850	
General office expenses		6700	
office wages & salaries	69500		
Less prepaid	9500	6000	
Less depreciation of Factory equipment	32000		
Less depreciation of office equipment	4000	25000	198650
NET PROFIT			167950

Balance sheet as at 31 July 2022

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	cost	Depn	N.B.V
Factory equipment	160 000	32 000	128 000
Office equipment	40 000	4 000	36 000
	200 000	32 000 36 000	92 000
Current Assets			
Bank	9 700		
Pro. for doubtful debts	3 000		
Trade receivable	75 000	8 700	
Current liabilities			
Loan	35 000		
Loan interest payable	2 100		
Trade payable	55 500	9 050	
Working capital			(29 500)
NET BOOK value of Assets			89 050
Long term liabilities			
Capital	200 000	200 000	
- Bank loan:	35 000	165 000 165 000 - 35 000	165 000
Capital employed			75 950

Examiner comment – low

- (a) The candidate clearly understood how to calculate the cost of materials used but, because the opening and closing inventories were transposed, the mark for the total could not be awarded. The mark for the label was also incorrect. No marks could be awarded for the prime cost as the direct wages and the direct expenses were omitted and replaced by an extraneous item. Only the factory indirect expenses were listed in the section for the factory overheads. The candidate made the correct adjustment for the work in progress, however this figure was deducted from the overheads and not from the total cost, and this total was also incorrectly labelled. **4/14**
- (b) The trading section of the income statement should have shown the cost of sales deducted from the revenue. Revenue was omitted and the closing inventory was incorrectly treated as opening inventory. The candidate knew that the cost of production should be transferred from the manufacturing account, but the amount transferred was not the total of the manufacturing account so no mark could be awarded. Three of the expenses were correctly listed and marks were awarded. The total of the rent and rates was listed instead of one quarter. The wages accrued was correctly added to the amount paid, but appears to include goods withdrawn for personal use. The increase in the provision for doubtful debts should have been shown as an expense, but the total of the new provision was incorrectly deducted from the rent and rates. **3/13**
- (c) The balance sheet was presented in an acceptable manner. The depreciation of the non-current assets should be the accumulated depreciation at the start of the year plus the depreciation for the year, but only the depreciation for the year was included. Inventory and prepayments were omitted from the current assets. The total provision at the year end should be deducted from the trade receivables. The loan was included in both the current liabilities and the long term liabilities; accruals of loan interest (\$700) and wages (\$6500) should have been included in the current liabilities. The working capital was clearly labelled, but no mark could be awarded as there was an extraneous item in the current liabilities. The loan was incorrectly deducted from the capital in the long term liabilities section and so the mark could not be awarded. The final section of the balance sheet showing the capital, profit for the year and drawings was omitted. **0/13**

Total mark awarded = 7 out of 20

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