CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2012 series

7110 PRINCIPLES OF ACCOUNTS

7110/21 Paper 2 (Structured), maximum raw mark 120

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 **(a)** The stationery is prepaid by $60/Asir has a stock of stationery worth $60. **(1)** [1]

(b)

Stationery account

		$				$	
July 1	Balance b/d	60		Sep 3	Rapid Office	45	**(1)**
Aug 18	Rapid Office	450	**(1)**	Sept 30	Income statement	390	**(1)**
Aug 20	Cash	150	**(1)**	Sept 30	Balance c/d	225	
		660				660	
Oct 1	Balance b/d	225	**(1of)**				

Rapid Office Supplies account

		$				$	
July 30	Bank	384		July 1	Balance b/d	400	
July 30	Discount rec	16	**(1)**	Aug 18	Stationery	450	**(1)**
Sept 3	Stationery	45	**(1)**				
Sept 30	Balance c/d	405					
		850				850	
				Oct 1	Balance b/d	405	**(1of)**

[9]

(c) **(i)** Invoice **(1)**

(ii) Credit note **(1)** [2]

(d)

	$
Trial balance	615 **(1)**
Income statement	390 **(1of)**
Balance sheet	225 **(1of)**

[3]

(e) **(i)** Current assets **(1)**

(ii) Current liabilities **(1)** [2]

(f) **(i)** Asir will match his revenue to his expenses for the period therefore will only transfer the value of stationery that he has used not the value that he has purchased. **(2)**

(ii) Accruals/Matching concept **(1)** [3]

[Total: 20]

2 **(a)** **(i)** Depreciation is the continuing diminution in value of a non-current asset **(2)** [2]

(ii) Wear and tear
Obsolescence
Depletion
Passage of time
(1) × 2 points [2]

(b) Apportions an equal amount of depreciation to each year of ownership
More appropriate to fixed assets that depreciate by an equal amount each year
(2) × 1 point [2]

(c) **(i)** Equipment provision for depreciation account

		$				$	
Jan 31	Disposal	16 800	**(1)**	Sept 1	Balance b/d	24 000	**(1)**
Aug 31	Balance c/d	20 600		Aug 31	Income statement	13 400	**(1)**
		37 400				37 400	
				Sept 1	Balance b/d	20 600	**(1of)**

(ii) Equipment disposal account

		$				$	
Jan 31	Equipment	28 000	**(1)**	Jan 31	Provision for deprec'n	16 800	**(1)**
				Jan 31	Bank	10 000	**(1)**
				Aug 31	Income statement	1 200	**(1)**
		28 000				28 000	[8]

(d) Balance sheet (extract) at 31 August 2012

Non-current assets	Cost		Accumulated depreciation		NBV		
	$		$		$		
Equipment	67 000	**(1)**	20 600	**(1)**	46 400	**(1of)**	
Office computer	8 600	**(1)**	6 350	**(1)**	2 250	**(1of)**	
	75 600		26 950		48 650		[6]

[Total: 20]

3 **(a)** Sandar Manufacturing

Manufacturing Account for the year ended 30 September 2012

	$		$	
Opening inventory of raw materials	17 500	**(1)**		
Purchases of raw materials	82 600	**(1)**		
Carriage on raw materials	7 200	**(1)**		
	107 300			
Closing inventory of raw materials	16 300	**(1)**		
Cost of raw materials consumed			91 000	**(1of)**
Production wages	75 000	**(1)**		
Royalties	9 000	**(1)**		
			84 000	
PRIME COST			175 000	**(1of)**
Factory overheads:				
Production manager's salary	20 500	**(1)**		
Rent, rates and power	18 400	**(1)**		
General factory expenses (15 200 + 400)	15 600	**(1)**		
Premises maintenance	28 000	**(1)**		
Depreciation on factory machinery	7 500	**(1)**		
			90 000	
Work in progress:				
At 1 October 2011	24 000	**(1)**		
At 30 September 2012	(29 000)	**(1)**		
			(5 000)	
PRODUCTION COST			260 000	**(1of)**

[16]

(b) A cost which can be directly linked to the product being manufactured. **(2)** [2]

(c) Raw materials
Production wages
Royalties
(2) × 1 point [2]

[Total: 20]

4 **(a)** **(i)** Revenue (sales) $\frac{120\,000}{25} \times 125$ = \$600 000 **(3)** [3]

(ii) Net profit/ sales percentage $\frac{48\,000}{600\,000} \times 100$ = 8% **(3)** [3]

(iii) Net profit / capital percentage $\frac{48\,000}{320\,000} \times 100$ =15% **(3)** [3]

(iv) Quick ratio (acid test) $\frac{60\,000}{60\,000}$ = 1:1 **(3)** [3]

(b) Quick ratio (acid test) does not contain inventory **(1)**
Inventory may be difficult or take time to sell **(1)** [2]

(c) The cash level is low at $5 000 and probably insufficient **(1)**
Maya has to repay the $35 000 loan in 1 month **(2)**
Any other valid point [3]

(d) Introduce additional capital
Raise a long term loan
Sell surplus non-current assets
Press trade receivables for swift payment/ offer a cash discount
Sell some inventory for cash/ hold a sale of some inventory
Extend trade payables payment period
Any other valid point

(1) × 3 points [3]

[Total: 20]

5 (a)

Maria
Income Statement for the year ended 30 September 2012

	$		$		
Revenue			365 000		
Returns			8 900		
			356 100	**(1)**	
Inventory 1 October 2011	33 500	**(1)**			
Purchases (135 000 + 7 500)	142 500	**(2)**			
	176 000				
Returns	(4 250)	**(1)**			
	171 750				
Inventory 30 September 2012	(36 450)	**(1)**			
Cost of sales			135 300	**(1)**	
Gross profit			220 800		
Plus					
Discount received	7 300	**(1)**			
Decrease in Provision for doubtful debts	3 400	**(2)**			
			10 700		
			231 500		
Less					
Loan interest (2 000 + 1 000)	3 000	**(1)**			
Distribution expenses	18 630	**(1)**			
Computer repairs (19 150 + 1 700)	20 850	**(1)**			
General running expenses (31 600 – 4 000)	27 600	**(1)**			
Salaries and wages (86 700 – 5 200)	81 500	**(1)**			
Marketing costs	14 000	**(1)**			
Discount allowed	22 400	**(1)**			
Depreciation:					
Buildings	2 000	**(1)**			
Fixtures	4 800	**(2)**			
Computers	7 000	**(1)**			
			(201 780)		
Profit for the year			29 720	**(1of)**	[22]

Balance Sheet at 30 September 2012

	Cost	Accumulated Depreciation	NBV	
Non current assets	$	$	$	
Land and buildings	150 000	12 000	138 000	**(2)**
Fixtures and fittings	32 000	23 800	8 200	**(2of)**
Computer equipment	40 000	19 000	21 000	**(1of)**
	222 000	54 800	167 200	
Current assets				
Inventory		36 450		**(1)**
Trade receivables	60 000			
Less Provision for doubtful debts	3 000			
		57 000		**(2)**
Other receivables		5 200		**(1)**
Bank		14 070		**(1)**
		112 720		
Less				
Current liabilities				
Trade payables (31 000 + 7 500)		38 500		**(2)**
Other payables (1 700 + 1 000)		2 700		**(2)**
		(41 200)		
Net current assets			71 520	**(1of)**
			238 720	
Non current liabilities				
8% Bank loan			(50 000)	**(1)**
			188 720	
Financed by:				
Capital at 1 October 2011			180 000	
Profit for the year			29 720	**(1of)**
			209 720	
Drawings			(21 000)	
			188 720	**(1of)** [18]

[Total: 40]