MARK SCHEME for the October/November 2015 series

7110 PRINCIPLE OF ACCOUNTS

7110/22   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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CAMBRIDGE
International Examinations

1 (a)

Cash Book (Bank Columns)

Date	Details	$	Date	Details	$
Oct 1	Balance b/d	705	Oct 1	Bank charges	35 **(1)**
				Ng	150 **(1)**
				YJ Electric	250 **(1)**
		___		Balance c/d	<u>270</u>
		<u>705</u>			<u>705</u>
Oct 1	Balance b/d	270 **(1of)**			

[4]

(b)

Bank Reconciliation Statement at 1 October 2015

	$	$	
Balance as per bank statement		1358	
Plus			
Amounts not yet credited:			
Sampson		<u>625</u>	**(1)**
		1983	
Less			
Cheques not yet presented:			
Yang Stores	849		**(1)**
Lam	364		**(1)**
Xevera	<u>500</u>		**(1)**
		<u>1713</u>	
Balance as per cash book		<u>270</u>	**(1)of**

[5]

(c) (i) Sales ledger **(1)**

(ii) Sales invoice **(1)** [2]

(d)

Izzat account

Date	Details	$	Date	Details	$
Oct 1	Balance b/d	750 **(1)**	Oct 6	Sales returns	280 **(1)**
5	Sales	1440 **(1)**	21	Bank	800 **(1)**
		____	22	Bad debt	<u>1110</u> **(1of)**
		<u>2190</u>			<u>2190</u>

[5]

(e)

General Journal

Date		Dr $	Cr $
Oct 22	Bad debt	1110 **(1)of**	
	Izzat		1110 **(1)of**
	Balance owing written off as irrecoverable **(1)**		

[3]

(f) Large storage capacity
Accuracy/reduction in errors
Speed of processing/timely info/less time consuming
Security of data
To prepare the trial balance
To prepare financial statements/income statement/balance sheet
To prepare exception reports

3 points × **(1)**   [3]

[Total: 22]

2 (a)

Sales ledger control account

Date	Details	$	Date	Details	$
Aug 1	Balance b/d	27 520	Aug 31	Sales returns	1 700 **(1)**
31	Sales	32 400 **(1)**		Bank	40 150 **(1)**
	Interest charged	600 **(1)**		Discount allowed	780 **(1)**
				Bad debts	2 900 **(1)**
		____		Balance c/d	14 990 **(1)**
		60 520			60 520
Sept 1	Balance b/d	14 990 **(1of)**			

[8]

(b)

Error	Type of error
1	*Omission*
2	Principle **(1)**
3	Reversal **(1)**
4	Commission **(1)**

[3]

(c)

General journal

Details	Dr $	Cr $
Tong	560 **(1)**	
Sales		560 **(1)**
Sales	800 **(1)**	
Disposal of fixtures and fittings		800 **(1)**
Discount allowed	112 **(1)**	
R Biggs		112 **(1)**
Mia	75 **(1)**	
Mason		75 **(1)**

[8]

(d) Used as a balancing figure when the trial balance does not balance **(1)**
Enables draft financial statement to be prepared **(1)**
Assist/help in correction of errors **(1)**
Max 1 [1]

[Total: 20]

3 (a)

Fairview Manufacturing
Manufacturing Account for the year ended 31 October 2015

	$	$	
Inventory 1 November 2014	108 000		
Purchases of raw materials	486 000		
Carriage in on raw materials	18 000		**(1)**
	612 000		
Inventory 31 October 2015	(94 000)		
Cost of raw materials consumed	518 000		**(1of)+w no aliens**
Factory wages (295 000 + 9000)	304 000		**(1)**
Direct packaging	33 000		**(1)**
Prime cost	855 000		**(1)w +of if no aliens**
Factory overheads:			
Indirect packaging	22 000	**(1)**	
Rent	24 000	**(1)**	
Management salaries	75 600	**(1)**	
Indirect expenses	8 500		**(1)**
Depreciation – Factory equipment	35 000		**(1)**
		165 100	
		1 020 100	**(1)of**
Work in progress at:			
1 November 2014	84 300		
31 October 2015	(81 400)		
		2 900	**(1)**
Cost of production/Factory cost		1 023 000	**(1of) +w** [13]

(b)

	$	$	
Time worked: 140 @ $6		840	**(1)**
28 @ $7.50		210	**(1)**
		1050	
Less Tax and social security	250		
Pension contribution	60		
	(310)	**(1)**	
Net pay		740 **(1of)**	

[4]

(c) Pay slip **(1)** [1]

[Total: 18]

4 (a)

	Workings	Answer
Inventory at 1 August 2014	Cost of goods sold 285 000 **(1)** + 65 000 – 295 000	$55 000 **(1)**
Rate of inventory turnover	$\frac{285\,000}{(55\,000 + 65\,000)/2}$ **(1)**	4.75 times **(1of)**
Expenses paid for the year ended 31 July 2015	Gross profit 95 000 **(1)** – Profit (35 000) Expenses 60 000 **(1)** Less accrued (8000) **(1)**	$52 000 **(1of)**
Working capital ratio (current ratio)	$\frac{65\,000 + 42\,000 + 13\,000}{52\,000 + 8000}$ **(1)**	2:1 **(1)**
Quick ratio (acid test ratio)	$\frac{42\,000 + 13\,000}{52\,000 + 8000}$ **(1)**	0.92:1 **(1)**

[12]

(b)

	Proposal	Working capital (Increase, decrease, no effect)	Amount $
1	Sell excess non-current assets for $4000	*Increase*	*4000*
2	Sell old inventory costing $15 000, for $9000 cash	Decrease **(1)**	6000 **(1)**
3	Allow a trade receivable 5% cash discount for early payment of a debt of $10 000	Decrease **(1)**	500 **(1)**
4	Pay expenses accrued of $8000	No effect **(1)**	Nil **(1)**
5	Bring additional capital into the business, motor vehicle $5000 and cash $1000	Increase **(1)**	1000 **(1)**

[8]

[Total: 20]

5 (a)

Ning
Income Statement for the year ended 30 September 2015

	$	$	
Revenue		248 200	
Less Sales returns		(7 850)	
		240 350	**(1)**
Inventory 1 October 2014	20 450		
Purchases	104 750		
Carriage inwards	3 400		**(1)**
	128 600		**(1)**
Less Inventory 30 September 2015	(17 300)		
Cost of sales		(111 300)	**(1)**
Gross profit		129 050	**(1) of no aliens**
Discount received	8 250		**(1)**
Commission received	5 900		**(1)**
		14 150	
		143 200	
Less expenses:			
Advertising (10 800 **(1)**–900 **(1)**)*	9 900		
Distribution (17 200 **(1)** + 2 600 **(1)**)*	19 800		
Electricity	4 230		**(1)**
Wages and salaries	35 000		**(1)**
Insurance	5 000		**(1)**
Loss on disposal	2 270		**(1)**
Depreciation: Leasehold	4 000		**(1)**
Computer equipment	13 000		**(1)**
Fixtures and fittings	3 000		**(1)**
Bank loan interest			
(3000 **(1)** + 1000 **(1)**)*	4 000		**(2)**
Bad debts	6 400		**(1)**
Increase in Provision			
for doubtful debts	400		**(2)**
		(107 000)	
Profit for the year		36 200	

[23]

* must be netted for 2nd mark

(b)

Ning
Statement of Financial Position at 30 September 2015

Assets

Non-current assets	Cost	Accumulated Depreciation	Book Value	
	$	$	$	
Leasehold premises	80 000	24 000	56 000	**(1 of)**
Computer equipment	75 000	36 000	39 000	**(1 of)**
Fixtures and fittings	30 000	20 500	9 500	**(1 of)**
	185 000	80 500	104 500	
Current assets				
Inventory		17 300 **(1)**		
Trade receivables	38 000	**(1)**		
Less Provision for doubtful debts	1 900	36 100 **(1 of)**		
Other receivables		900 **(1)**		
			54 300	
Total assets			158 800	

Capital and liabilities

Capital	50 000 **(1)**			
Plus Profit for the year	36 200 **(1) of**			
	86 200			
Less Drawings	(25 000) **(1)**			
			61 200	
Non-current liability **(1)**				
8% Bank loan			40 000 **(1)**	
Current liabilities				
Trade payables	38 700 **(1)**			
Other payables (1000 **(1)** + 2600 **(1)**)	3 600			
8% Bank loan	10 000 **(1)**			
Bank	5 300 **(1)**			
			57 600	
Total liabilities			158 800	

[17]

[Total: 40]