CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2012 series

7110 PRINCIPLES 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

CAMBRIDGE International Examinations

1 **(a)**

Jane
Trial Balance at 1 October2012

	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	*Purchases journal*	*Purchases*	*Punto*	*No effect*
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]

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]

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	50			
	20 700	**(1)**		
Current liabilities				
Trade payables	8 100			
Other payables	900			
	9 000	**(1)**		
Net current assets			11 700	
			19 400	
Non current liabilities				
Loan			(9 000)	**(1)**
			10 400	
Capital			10 400	**(2 or 1 of)**

[10]

(c)

	$	
Opening capital	6 000	**(1)**
Profit for the year	13 200	**(1 of)**
19 200		
Drawings	(8 800)	**(1)**
Closing capital	10 400	**(1 of)**

Accept alternative formats [4]

(d) **(i)**

130 hours × $6	= $780	
10 hours × $9	= $90	
	$870	**(1)**
Less tax	$145	
Net pay	$725	**(1)**

[2]

(ii)

Gross pay	$870	
Employers social security	$87	**(1 of)**
Total cost of employing Fan	$957	**(1 of)**

[2]

[Total: 20]

4 **(a)** **(i)**

	$000		
Gross profit (Cost of sales $320 × 25%)	80	**(1)**	
Expenses	60		
Profit for the year	20	**(2 or 1 of)**	[3]

(ii) Turnover of inventory $\frac{320}{(25+65)/2}$ = 7.1 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]

5 (a)

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	183 000		**(1)**	
		209 000		
Less: Inventory of raw materials at 31 July 2012	29 000		**(1)**	
Cost of raw materials consumed	180 000		**(1)**	
Production wages (164 500 + 6 500)	171 000		**(1)**	
Direct factory expenses	38 000		**(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	20 800		**(1)**	
		120 000		
		509 000		
Less Increase in work in progress (36 000 – 40 000)		(4 000)	**(1)**	
Production Cost		505 000	**(1)**	[14]

(b)

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	(1 500)		**(1)**	
	551 500			
Inventory of finished goods at 31 July 2012	(55 000)			
Cost of sales		(496 500)	**(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	1 500		**(1)**	
		(171 000)		
Profit for the year		12 500		[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	40 000	30 000	10 000	**(1)**
	200 000	106 800	93 200	
Current assets				
Inventory:				
Raw materials	29 000			
Work in progress	40 000			
Finished goods	55 000			
		124 000		**(1)**
Trade receivables	75 000			
Less: provision for doubtful debts	4 500			
		70 500		**(2)**
Other receivables (Prepaid marketing)		1 350		**(1)**
Bank		9 700		
		205 550		
Less: current liabilities				
Trade payables	53 550			**(1)**
Other payables accrued expenses (6 500 + 700)	7 200			**(2)**
		(60 750)		
Net current assets			144 800	
			238 000	
Non current liabilities				
8% loan repayable 31 December 2025			(35 000)	**(1)**
			203 000	
Capital		200 000		
Add: Profit for the year		12 500		
		212 500		
Less: Drawings (8 000 + 1 500)		(9 500)		**(2)**
			203 000	**(1 of)**

[13]