UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2008 question paper

7110 PRINCIPLES OF ACCOUNTS

7110/02 Paper 2 (Structured), maximum raw mark 100

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 (a)

Jason Moore
Trial Balance at 31 October 2008

	$	$	
Provision for doubtful debts		150	
Capital		16 550	
Drawings	8 000		
Plant and equipment	18 000		
Provision for depreciation of plant and equipment		3 000	
Stock	4 000		
Debtors	3 000		
Creditors		2 000	
Cash	1 500		
Sales		40 000	
Purchases	21 000		
Sundry expenses	6 200		
	61 700	61 700	**(3)**

(Three marks for both correct totals; one mark if suspense account inserted) [3]

(b) Confirms arithmetical accuracy of the double-entry **(1)**
Acts as a basis from which to prepare final accounts **(1)** [2]

(c) Error of omission **(1)** – complete omission of a transaction **(1)**
Error of commission **(1)** – correct amount entered in incorrect account of correct class **(1)**
Error of principle **(1)** – item entered into incorrect class of account **(1)**
Compensating error **(1)** – errors cancel each other out **(1)**
Error of original entry **(1)** – item entered at incorrect amount in both accounts **(1)**
Error of reversal **(1)** – debit entry posted as credit and vice versa **(1)**
Transposition error **(1)** – error in sequence of numbers in both accounts **(1)**
Any 3 points, 2 marks each [max 6]

(d)

	Dr **$**	Cr **$**	
Purchases	3000 **(1)**		
Plant and equipment		3000 **(1)**	
Creditors	1000 **(1)**		
Cash		1000 **(1)**	[4]

(e) (i) Running balance format **(1)**
The balance is always available **(1)** [2]

(ii) The trial balance figure represents the balance before the final accounts are prepared. **(1)**
The final ledger balance is after preparation **(1)**
OR
The end of year transactions are posted after the final accounts is prepared **(1)** resulting in the final ledger account balance **(1)** [2]

[Total: 19]

2 **(a)** Sales Ledger Control account

	$			$	
Balance b/d	33 200	**(1)**	Bank	135 000	**(1)**
Sales	163 100		Bad debts	5 500	**(1)**
			Discount allowed	7 200	**(1)**
			Balance c/d	48 600	**(1)**
	196 300			196 300	

Sales on credit	163 100	
Cash sales	56 000	**(1)**
	219 100	**(1of)**

Accept any format [7]

(b) Gross profit 40% × $219 100 **(of)** = $87 640 **(1of)**
Net profit 5% × $219 100 **(of)** = $10 955 **(1of)** [2]

(c) **(i)** 25 × 50 × $6 = $7 500 **(1)**
30 × 50 × $8 = $12 000 **(1)**
$19 500 **(1of)** [3]

(ii) Social security/national insurance **(1)**
Pension contributions **(1)** [max 1]

(d) A 10% increase in pay would add $1950 to basic payroll costs **(1)**
Additional costs would also accrue on additional pay **(1)**
Tina would need information to ensure she could meet additional costs **(1)**
She would need to evaluate the effect of the increase on profits **(1)**
She would need to consider if changes (increased prices) are needed to pay additional wages **(1)**
She would need to think about effects on future plans **(1)**
Tina would need to ensure she has enough cash to pay additional wages **(1)**
She would need to consider if the business would still be earning sufficient profits to meet her needs **(1)**
Any 3 points, 2 marks each
(accept other appropriate comments) [max 6]

[Total: 19]

3 (a) Calculation of accumulated fund

	$	
Subscriptions in arrears	130	
Stock of refreshments	340	
Balance at bank	740	
	1 210	
Subscriptions in advance	210	
Accumulated fund	1 000	**(2)**

Accept any presentation [2]

(b) Avalon Social Club
Subscriptions account

		$				$	
2007				2007			
1 Nov	Balance b/d	130	**(1)**	1 Nov	Balance b/d	210	**(1)**
2008				2008			
31 Oct	Balance c/d	90	**(1)**	Various	Bank	1710	**(1)**
31 Oct	Income & expenditure account	1700	**(1)**				
		1920				1920	
				2008			
				1 Nov	Balance b/d	90	

Accept running balance format [5]

(c) Profit made on sale of refreshments

	$			
Opening stock	340		Sales	4970
Purchases	3630			
	3970			
Less: closing stock	290			
Cost of goods sold	3680			
Gross profit on sales	1290	**(2)**		
	4970			4970

Accept any presentation [2]

(d) Avalon Social Club
Income and Expenditure account for the year ended 31 October 2008

	$			$	
Rent and rates	1400		Subscriptions	1700	**(1of)**
Insurance	300		Profit on sale of refreshments	1290	**(1of)**
Sundry expenses	1300		Deficit of expenditure over income	10	**(1of)**
	3000	**(1)**		3000	

Accept vertical format [4]

(e) Matching/accruals is used to calculate the amount of subscriptions members should pay for the year to 31 October **(2)**
This is irrespective of the amounts actually paid **(2)**
It recognises amounts owed/owing for past and previous periods **(2)** [max 4]

[Total: 17]

4 (a) Agrippa Ltd
Appropriation account for the year ended 31 October 2008

		$			$	
General reserve		20 000	**(1)**	Balance b/d	50 000	**(1)**
Preference share dividend		1 500	**(1)**	Net profit	7 000	**(1)**
Ordinary share dividend:						
Interim	600 **(1)**					
Proposed	1000 **(1)**	1 600				
Balance c/d		33 900	**(1)**			
		57 000			57 000	

Accept vertical format [7]

(b) Agrippa Ltd
Balance Sheet (extract) as at 31 October 2008

	$	
Called up share capital		
5% $1 Preference shares	30 000	**(1)**
$1 Ordinary shares	40 000	**(1)**
General reserve	28 000	**(1)**
Profit and loss account	33 900	**(1of)**
	131 900	

[4]

(c) Authorised share capital is the maximum a company may issue **(1)**
OR
Authorised capital is the amount of share capital a company is authorised to issue by its memorandum and articles of association **(1)**

Called up share capital is the total amount the company had sold on fully or partly paid shares **(1)** [2]

(d) Ordinary shares have variable dividends or in some years no dividends, whereas preference shares have a fixed dividend **(2)**
OR
Preference shares have preferential rights on the winding up of a company whereas ordinary shares have no such rights **(2)**

Accept other appropriate alternatives [2]

(e) Debentures represent creditors of a company where preference shares represent a form of membership **(2)**
OR
Debentures may be secured whereas preference shares are not secured **(2)**

Accept other appropriate alternatives [2]

(f) This approach does not follow accounting standards **(2)**
This is not legally acceptable **(2)**
The change would overstate the profits **(2)**

Accept other appropriate alternatives [max 4]

(g) IASs provide a commonly understood range of rules **(2)**
Accountants therefore have guidance to follow **(2)**
This offers less opportunity for confusion **(2)**
Comparison is easier as similar rules are followed **(2)**
There is less opportunity for manipulation of results **(2)**
IASs mean that there is some regulation of accounts improving reliability **(2)**

Accept other appropriate alternatives [max 4]

[Total: 25]

5 (a) Samma Rashid
Manufacturing Account for the year ended 31 October 2008

	$		$				$
Stock of raw materials at 1 November 2007			26 700	**(1)**	Cost of production	**(1)**	422 360
Purchases of raw materials			213 200	**(1)**			
			239 900				
Less: stock of raw materials at 31 Oct 2008			30 640	**(1)**			
Cost of materials consumed **(1)**			209 260				
Direct factory wages (145 300 + 12 100)			157 400	**(1)**			
Prime cost **(1)**			366 660				
Factory manager's salary	14 800	**(1)**					
Indirect factory expenses	23 200	**(1)**					
Provision for depreciation of factory plant and machinery (80 000 – 8 000) x 25%	18 000	**(1)**	56 000				
			422 660				
Less increase in work in progress			300	**(1)**			
			422 360				
							422 360

Accept alternative presentation [11]

(b) Samma Rashid

Trading and Profit and Loss Account for the year ended 31 October 2008

		$			$	
Stock of finished goods at 1 November 2007		2 450	**(1)**	Sales	525 300	**(1)**
Cost of production		422 360	**(1of)**			
Purchases of finished goods	15 800 **(1)**					
Less returns	900 **(1)**	14 900				
		439 710				
Less stock of finished goods at 31 Oct 2008		2 150	**(1)**			
Cost of goods sold		437 560				
Gross profit c/d		87 740				
		525 300			525 300	
Office salaries		36 200	**(1)**	Gross profit b/d	87 740	**(1of)**
Sundry office expenses		18 600	**(1)**	Discounts received	5 100	**(1)**
Distribution costs (23 400 – 1 860)		21 540	**(1)**	Reduction in provision for doubtful debts		
Provision for depreciation of office equipment [(24 000 – 15 360) × 40%]		3 456	**(1)**	{800 – [(44 250 – 4800) × 2%]}	11	**(2)**
Net profit c/d		13 055				
		92 851			92 851	

Accept any recognisable layout [14]

(c)

Samma Rashid
Balance Sheet as at 31 October 2008

	Cost		Acc Depr'n		NBV						
Fixed assets							Capital at				
Factory plant and							1 November 2007	80 740	**(1)**		
machinery	80 000		54 000	**(1of)**	26 000		Net profit	13 055	**(1of)**		
Office equipment	24 000		18 816	**(1of)**	5 184			93 795			
	104 000		72 816		31 184	**(1)**	Drawings	11 600	**(1)**		
										82 195	
Current assets											
Stock											
Raw materials	30 640						Current liabilities	19 600	**(1)**		
Work in progress	8 200						Creditors				
Finished goods	2 150		40 990	**(1)**			Accrued direct factory	12 100	**(1)**		
							wages			31 700	**(1of)** *if no aliens*
Debtors	39 450	**(1)**									
Less: provision for doubtful debts	789	**(1of)**	38 661								
Cash at bank			1 200	**(1)**							
Prepaid distribution costs			1 860	**(1)**	82 711	**(1of)**					
					113 895					113 895	

Accept any recognisable layout

[15]

[Total: 40]