**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Ordinary Level**

# MARK SCHEME for the May/June 2012 question paper

# for the guidance of teachers

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

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1 (a) Books of Yang
Win account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| Mar 1 | Balance b/d | 3000 | (1) | Mar 20 | Sales returns | 160 | **(2)** |
| Mar 17 | Sales | 800 | **(1)** | Mar 30 | Bank | 650 | **(1)** |
| | | | | Mar 30 | Bad debt **(1)** | 2990 | **(1 of)** |
| | | 3800 | | | | 3800 | |

[7]

**(b)** Credit note **(1)** [1]

**(c)** Journal **(1)** [1]

**(d)** **(i)** To check the arithmetical accuracy of the double entry.
To provide a basis for the preparation of financial statements.
It is 'prima facie' evidence of the balancing of the accounts. [2]

**(ii)**

| Account | Debit/Credit |
|---|---|
| Provision for depreciation | Credit **(1)** |
| Inventory | Debit **(1)** |
| Bank (overdraft) | Credit **(1)** |
| Wages | Debit **(1)** |

[4]

**(e)** Omission
Commission
Principle
Compensation
Original entry
Reversal
(1) × 3 points [3]

**(f)** Journal

| | Dr | Cr | |
|---|---|---|---|
| | $ | $ | |
| Wilbur | 12000 | | (1) |
| Sales | | 12000 | (1) |

[2]

**[Total: 20]**

2 (a) Purchases ledger control account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| Mar 31 | Purchase returns | 900 | **(1)** | Mar 1 | Balance b/f | 15300 | **(1)** |
| Mar 31 | Bank | 82450 | **(1)** | Mar 31 | Purchases | 77850 | **(2) (1 of)** |
| Mar 31 | Discount received | 1350 | **(1)** | Mar 31 | Refunds | 700 | **(1)** |
| Mar 31 | Balance c/d | 9150 | **(1)** | | | | |
| | | 93850 | | | | 93850 | |

[8]

**(b)** Check on the arithmetical accuracy of the ledgers
Provide information for financial statements
Financial statements can be prepared quickly
Helps to detect fraud
Helps to detect errors **(1)** × 2 points [2]

**(c) (i)**

| | | | |
|---|---|---|---|
| 140 hours × $6 = | $840 | | |
| 6 hours × $9 = | $54 | | |
| | $894 | **(1)** | |
| Less tax | $160 | **(1)** | |
| Net pay | $734 | **(1)** | [3] |

**(ii)**

| | | | |
|---|---|---|---|
| Payment to Hui | $894 | **(of)** | |
| On costs | $95 | **(1)** | |
| Cost of employing Hui | $989 | **(1 of)** | [2] |

**(d)** Journal

| | Dr $ | | CR $ | | |
|---|---|---|---|---|---|
| Wages and salaries | 989 | **(1)** | | | |
| Bank | | | 734 | **(1)** | |
| Tax authorities | | | 255 | **(2)** | [4] |

**[Total: 19]**

3 (a)

Trinity Social Club
Trial Balance at 30 April 2012

| | Dr | Cr |
|---|---|---|
| | $ | $ |
| Fixtures and fittings | 1600 | |
| Donations received | | 150 |
| Subscriptions | | 1980 |
| Rent | 1400 | |
| Sales of refreshments | | 2500 |
| General expenses | 780 | |
| Purchases of refreshments | 1150 | |
| Bank overdraft | | 100 |
| Accumulated fund | | 200 |
| | 4930 | 4930 |

**(1)** for every two correct answers in the trial balance + **(1)** for correct Accumulated fund

[5]

**(b) (i)** Subscriptions account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| Apr 30 | Income and expenditure | 2015 | **(1)** | Apr 30 | Bank | 1980 | **(1)** |
| Apr 30 | Balance c/d (in advance) | 25 | | Apr 30 | Balance c/d (in arrears) | 60 | |
| | | 2040 | | | | 2040 | |
| May 1 | Balance b/d (in arrears) | 60 | **(1)** | May 1 | Balance b/d (in advance) | 25 | **(1)** |

[4]

**(ii)** Refreshment Trading Account for the year ended 30 April 2012

| | $ | $ | |
|---|---|---|---|
| Sales of refreshments | | 2500 | |
| Less | | | |
| Purchases of refreshments (1150 + 75) | 1225 | | **(1)** |
| Less Inventory of refreshments | 430 | | |
| Cost of sales | | 795 | **(1)** |
| Profit on refreshments | | 1705 | **(1 of)** |

[3]

**(c)** Income and Expenditure Account for the year ended 30 April 2012

| | $ | $ | |
|---|---|---|---|
| Income | | | |
| Subscriptions | | 2015 | **(1 of)** |
| Profit on refreshments | | 1705 | |
| Donations | | 150 | |
| | | 3870 | **(1 of)** |
| Less expenditure | | | |
| Rent | 1400 | | |
| General expenses (780 +170) | 950 | | **(1)** |
| Depreciation on fixtures and fittings | 240 | | **(1)** |
| | | 2590 | |
| Surplus | | 1280 | **(1 of)** |

[5]

**(d)**

| **Receipts and payments** | **Income and expenditure** |
|---|---|
| Has a balance of the account brought down from the previous year | Calculates a surplus or deficit |
| Entries recorded throughout the year | Entries made at end of the year |
| Non-current assets recorded at cost | Depreciation on non-current assets only |
| Cash payments recorded | Cash payments adjusted for prepaid/accrued |

**(2)** × 2 points [4]

**[Total: 21]**

**4 (a) (i)**

Cost of sales $\$120\,000 \times \dfrac{100}{125} = 96\,000$ **(3)** [3]

**(ii)**

| | $ | |
|---|---|---|
| Opening inventory | 22 500 | |
| Purchases | 100 000 | **(2 + 1of)** |
| 122 500 | | |
| Closing inventory | 26 500 | |
| Cost of sales | 96 000 | **(of)** |

[3]

**(iii)** Expenses $120 000 x (20% – 8%) = $14 400 **(3)** [3]

**(b)** Inventory turnover $\dfrac{96\,000\ \textbf{(of)}}{(22\,500 + 26\,500)/2\ \textbf{(2)}}$ = 3.92 times **(1 of)** [3]

**(c)** Reduce inventory levels
Reduce mark up to be more competitive
Promotions such as advertise products
Offer cash discounts to encourage sales
**(1)** × 2 points [2]

**(d)** Revised profit $9 600 **(1)** + ($30 000 – $26 500) **(1)** = $13 100 **(1)** [3]

**(e)** Deterioration of inventory
Obsolescence
Space required for storage
Cost of storage
Risk of theft
(**1**) × 3 points [3]

**[Total: 20]**

**5 (a)**

Thien
Income Statement for the year ended 31 March 2012

| | $ | $ | |
|---|---|---|---|
| Revenue | | 78 580 | |
| Inventory 1 April 2011 | 4 690 | | |
| Purchases | 18 240 | | |
| | 22 930 | | |
| Drawings | (450) | | **(1)** |
| Returns | (1 600) | | **(1)** |
| | 20 880 | | |
| Inventory 31 March 2012 | (3 870) | | **(1)** |
| Cost of sales | | (17 010) | **(1 of)** |
| Gross profit | | 61 570 | |
| Plus | | | |
| Discount received | | 330 | **(1)** |
| Decrease in Provision for doubtful debts | | 160 | **(1)** |
| | | 62 060 | |
| Less | | | |
| Loan interest | 500 | | **(1)** |
| Equipment repairs | 850 | | **(1)** |
| Equipment running expenses (2 650 + 750) | 3 400 | | **(2)** |
| General running expenses | 8 400 | | **(1)** |
| Wages | 15 300 | | **(1)** |
| Insurance (3 640 – 1 350) | 2 290 | | **(2)** |
| Power and water | 2 300 | | **(1)** |
| Advertising costs | 5 100 | | **(1)** |
| Discount allowed | 1 650 | | **(1)** |
| Depreciation: | | | |
| Lease | 2 000 | | **(1)** |
| Equipment | 9 400 | | **(2)** |
| | | (51 190) | |
| Profit for the year | | 10 870 | |

[20]

**5** **(b)** Balance sheet at 31 March 2012

| | Cost | | Accumulated depreciation | | NBV | | |
|---|---|---|---|---|---|---|---|
| Non current assets | $ | | $ | | $ | | |
| Leasehold | 50 000 | **(1)** | 12 000 | **(1)** | 38 000 | **(1)** | |
| Equipment | 64 000 | **(1)** | 26 400 | **(1)** | 37 600 | **(1)** | |
| | 114 000 | | 46 000 | | 75 600 | | |
| Current assets | | | | | | | |
| Inventory | | | 3 870 | | | **(1)** | |
| Trade receivables | 6 750 | | | | | | |
| Provision for doubtful debts | 540 | | | | | | |
| | | | 6 210 | | | **(2)** | |
| Other receivables | | | 1 350 | | | **(1)** | |
| Bank (5 150 – 5 000) | | | 150 | | | **(2)** | |
| | | | 11 580 | | | | |
| Current liabilities | | | | | | | |
| Trade payables (4 010 + 5 000) | | | 9 010 | | | **(2)** | |
| Other payables (750 + 500) | | | 1 250 | | | **(2)** | |
| | | | 10 260 | | | | |
| Net current assets | | | | | 1 320 | **(1 of)** | |
| | | | | | 76 920 | | |
| Non current liabilities | | | | | | | |
| 6% Bank loan | | | | | (25 000) | **(1)** | |
| | | | | | 51 920 | | |
| Financed by: | | | | | | | |
| Capital at 1 April 2011 | | | | | 50 000 | | |
| Profit for the year | | | | | 10 870 | | |
| | | | | | 60 870 | | |
| Drawings (8 500 + 450) | | | | | (8 950) | **(2)** | |
| | | | | | 51 920 | | [20] |

**[Total: 40]**