CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the May/June 2015 series

7110 PRINCIPLES OF ACCOUNTS

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

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CAMBRIDGE
International Examinations

1 (a)

Mira
Trial Balance at 31 March 2015

	Dr $		Cr $
Office fixtures (at cost)	18 000		
Office fixtures provision for depreciation			7 200
Trade payables			5 400
General expenses	1 520		
Trade receivables	3 700		
Inventory	7 800		
Bank overdraft			2 600
Capital			16 000
Suspense **(1)**	180	**(1)**	
	31 200		31 200

(2) Both totals [4]

(b)

General Journal

	Debit $	Credit $
General expenses	180 **(1)**	
Suspense		180 **(1)**
General expenses	1000 **(1)**	
Office fixtures		1000 **(1)**

[4]

(c)

Date	Transaction	Source document	Book of prime entry	Account debited	Account credited
April 9	Sold goods on credit to Yash.	*Sales invoice*	*Sales journal*	*Yash*	*Sales*
April 11	Yash returned goods sold on 9 April as damaged.	Credit note **(1)**	Sales returns journal **(1)**	Sales returns **(1)**	Yash **(1)**
April 14	Paid wages by cheque.	Wages sheet/payroll **(1)**	Cash Book **(1)**	Wages **(1)**	Bank **(1)**
April 19	Purchased office fixtures on credit from Equip Ltd.	Purchase invoice **(1)**	General Journal **(1)**	Office fixtures **(1)**	Equip Ltd **(1)**

[12]

[Total: 20]

2 **(a)** Purchases ledger control account

		$				$	
28 Feb	Bank	32 500	**(1)**	1 Feb	Balance b/d	17 160	
28 Feb	Purchases returns	3 800	**(1)**	28 Feb	Purchases	28 500	**(2)(1of)**
Discount received		910	**(1)**				
Balance c/d		8 450					
		45 660				45 660	
				1 Mar	Balance b/d	8 450	**(1of)** [6]

(b) Sales ledger control account

		$				$	
1 Feb	Balance b/d	14 900		28 Feb	Bank	45 800	**(1)**
28 Feb	Bank (dishonoured cheque)	200	**(1)**		Discount allowed	2 700	**(1)**
					Bad debt	1 800	**(1)**
	Sales	47 800	**(2)(1of)**		Balance c/d	12 600	
		62 900				62 900	
1 Mar	Balance b/d	12 600	**(1of)**				[7]

(c) Income Statement for the month ended 28 February 2015

	$		$	
Sales: Credit			47 800	**of**
Cash			10 500	**(1)**
			58 300	
Less				
Inventory 1 February	9 350			
Purchases (28 500 – 3 800)	24 700	**of**		
	34 050			
Less Inventory 28 February	8 650			
Cost of sales			25 400	**(1of)**
Gross profit			32 900	
Add:				
Discount received			910	
			33 810	
Less expenses:				
Discount allowed			2 700	
Bad debts			1 800	
Depreciation			800	**(1)**
Wages			15 200	**(1)**
General expenses (7 900 – 2 300 **(1)** + 1 600 **(1)**)			7 200	
Profit for the month			6 110	[6]

(d) Large storage capacity
Accuracy
Speed of processing
Security of data
To prepare the trial balance
To prepare financial statements
To prepare exception reports
(1) × **2 points** [2]

[Total: 21]

3 (a)

Warle Limited
Statement of Changes in Equity for the year ended 30 April 2015

	Share Capital $	General Reserve $	Retained Profits $	Total $	
Balance at 1 May 2014	100 000	20 000	14 000	134 000	
Profit for the year	……….	………	86 000	86 000 **(1)**	
Transfer to general reserve	……….	50 000	(50 000)	0 **(1)**	
Dividend paid (interim)	……….	………	(3 000)	(3 000) **(1)**	
Dividend paid (final)	……….	………	(15 000)	(15 000) **(1)**	
Balance at 30 April 2015	100 000	70 000 **(1)**	32 000 **(1)**	202 000	[6]

(b)

Statement of Financial Position extract at 30 April 2015

	$	$	
Share capital			
Ordinary shares of $1 each		100 000 **(1)**	
Reserves			
General reserve	70 000 **(1)**		
Retained profits	32 000 **(1)**		
		102 000	
Shareholders' funds **(1)**		202 000 **(1of)**	[5]

(c) Differences:

Preference shares	Debentures
Paid dividend	Paid interest
Part of company equity/share capital	Loans to the company/loan capital
Generally no set repayment date/ may be redeemable	Set redeemable date
May be cumulative dividend	Interest must be paid even if losses are incurred

(2) × 2 differences
(Other valid points) [4]

(d) Retain cash in the business/to retain working capital
Retain profit for future use such as future dividend payments
Build reserves for future non-current asset purchase
(1) × 2 points
(Other valid points) [2]

(e) Consistency in preparing accounts in different countries
Accounting information can be relied upon although prepared in different countries
Standard framework of preparation in different countries
Comparison of information facilitated, although accounts are prepared in different countries.
(1) × 2 points [2]

[Total: 19]

4 (a) (i) $900\,000 \times \frac{100}{120}$ **(1)** $= 750\,000$ **(1)** [2]

(ii) 900 000 – 750 000 **of** = 150 000 – 105 000 **(1)** = 45 000 **(1)of** [2]

(b)

	Workings	31 March 2015	31 March 2014
Profit margin (profit for the year to revenue)	$\frac{45\,000}{900\,000}$ **of** **(1)** $\times 100 =$	5% **(1)of**	5%
Rate of inventory turnover	$\frac{750\,000}{(65\,000 + 35\,000)/2}$ **of** **(1)**	15 times **(1)of**	7 times
Return on capital employed (ROCE)	$\frac{45\,000}{300\,000 + 150\,000}$ **of** **(1)** $=$	10% **(1)of**	4%

[6]

(c) Own figure rule for answers
The net profit margin has remained unchanged at 5% **(1)**
Expenses as a proportion of sales have remained unchanged **(1)**
Cost of sales as a proportion of sales has remained unchanged **(1)**
Gross profit as a proportion of sales has remained unchanged **(1)**

Rate of inventory turnover has increased substantially **(1)**
John has increased the number of times that he sells the inventory in a year **(1)**
Inventory has reduced and is under control **(1)**

Return on capital employed has increased **(1)**
Greater total amount of profit **(1)**
More efficient use of funds in 2015 **(1)**

Max **(1)** × 6 points
(Other valid points) [6]

(d)

	Proposal	Accounting principle/concept
1	Change the depreciation methods for non-current assets	*Consistency*
2	Remove the provision for doubtful debts from the financial statements	Prudence or Matching/Accruals **(1)**
3	Value the inventory at market price	Historic cost **(1)**
4	Place a value on the skill of the workforce in the financial statements	Money measurement **(1)**
5	Exclude expenses owing from the income statement	Matching/Accruals **(1)**

[4]

[Total: 20]

5 (a)

Spiron Manufacturing
Manufacturing Account for the year ended 30 April 2015

	$		$	
Raw materials inventory 1 May 2014	10 150			
Purchases of raw material	85 000	**(1)**		
	95 150			
Raw materials inventory 30 April 2015	(12 750)	**(1)**		
Cost of raw materials consumed			82 400	**(1)of +w**
Factory wages			47 000	**(1)**
Direct expenses			5 600	**(1)**
Prime cost			135 000	**(1)of +w**
Factory overheads:				
Managers' salaries	32 000	**(1)**		
Indirect expenses	9 800	**(1)**		
Rent	8 000	**(1)**		
Insurance	6 400	**(1)**		
Depreciation – machinery	5 000	**(1)**		
			61 200	
			196 200	
Work in progress:				
At 1 May 2014	15 000			
At 30 April 2015	(16 200)			
			(1 200)	**(1)**
Cost of production			195 000	**(1)of +w**

[13]

(b) Income Statement for the year ended 30 April 2015

	$		$	
Revenue			310 000	
Less				
Inventory of finished goods 1 May 2014	21 200			
Transferred from manufacturing	195 000	**(1)of**		
Purchases of finished goods	19 000	**(1)**		
	235 200			
Inventory of finished goods 30 April 2015	(18 700)			
Cost of sales			(216 500)	
Gross profit			93 500	**(1)of**
Less expenses:				
Office wages and salaries	41 900	**(1)**		
Rent	2 000	**(1)**		
Insurance	1 600	**(1)**		
Marketing (12 400 – 600)	11 800	**(2)**		
Distribution expenses	9 850	**(1)**		
Financial expenses (7 650 + 850)	8 500	**(2)**		
Bad debt	1 900	**(1)**		
Increase in provision for doubtful debts	700	**(1)**		
Depreciation – office fixtures	3 000	**(1)**		
			(81 250)	
Profit for the year			12 250	**(1)w+of** [15]

(c) Statement of Financial Position at 30 April 2015

		Cost	Depreciation to date		Book value	
Assets						
Non-current assets		$	$		$	
Machinery		80 000	65 000		15 000	**(1)of**
Office fixtures		20 000	11 000		9 000	**(1)of**
		100 000	76 000		24 000	
Current assets						
Inventory:	Raw materials				12 750	**(2) All three**
	Work in progress				16 200	
	Finished goods				18 700	
Trade receivables			22 000	**(1)**		
Less Provision for doubtful debts			1 100	**(1)of**		
					20 900	
Other receivables					600	**(1)**
Bank					7 700	**(1)**
					76 850	
Total assets					100 850	
Liabilities					$	
Capital					90 000	
Profit for the year					12 250	**(1)w +f**
					102 250	
Drawings					(16 600)	**(1)**
					85 650	
Current liabilities						
Trade payables					14 350	**(1)**
Other payables					850	**(1)**
					15 200	
Total liabilities					100 850	[12]

[Total: 40]