Cambridge International Examinations
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 Structured **October/November 2016**

MARK SCHEME

Maximum Mark: 120

Published

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CAMBRIDGE International Examinations

1 (a)

Fabio
Trial Balance at 30 June 2016

	Debit		Credit	
	$		$	
Motor vehicle	9 500			
Trade payables			8 500	
Inventory	4 850			
Revenue			22 000	
Purchases	14 400			
Bank loan			2 000	
Bank overdraft			1 630	
Trade receivables	7 250			
Capital			3 000	
Suspense **(1)**	1 130	**(1)of**	______	
	37 130	**(1)**	37 130	**(1)**
NB:(of) can be Dr or Cr.				

[4]

(b)

General journal

	Debit		Credit	
	$		$	
Suspense	270	**(1)**		
Revenue (Sales)			270	**(1)**
Purchases	1 400	**(1)**		
Suspense			1 400	**(1)**

NB: accept suspense account netted to 1130cr = (2)

[4]

(c)

Transaction	Book of prime entry	Account to be debited	Account to be credited	Effect on capital $
Sold goods costing $900 on credit to Noah for the list price of $1500.	*Sales Journal*	*Noah*	*Revenue (Sales)*	*+$600*
Noah returned goods with a list price of $100	Sales returns/ returns in journal/day book **(1)**	Sales returns/returns inwards **(1)**	Noah **(1)**	-$40 **(1)**
Paid Sophie a cheque for $610.	Cash book **(1)**	Sophie **(1)**	Bank **(1)**	No effect **(1)**
A debt, $230, owed by Zain was written off.	General journal/ Journal/ Nominal journal **(1)**	Bad debts/irrecoverable debts **(1)**	Zain **(1)**	-$230 **(1)**

[12]

[Total:20]

2 (a) Rent Receivable Account

Date	Details	$		Date	Details	$	
2016				2015			
Jan 31	Bank	700	**(1)**	Oct 1	Balance b/d	2 500	
				Dec 31	Bank	6 700	**(1)**
Sept 30	Income statement/ Profit and loss/ IS/ P&L	12 000	**(1)**	2016			
				April 30	Bank	3 100	**(1)**
		______		Sept 30	Balance c/d	400	
		12 700				12 700	
Oct 1	Balance b/d	400	**(1)of**				

[5]

(b)

	$		$		$	
Profit for the year					24 000	
	Increase		Decrease			
Purchases of $500 had not been recorded in the books.			500	**(1)**	(500)	
Goods, $800, had been counted twice in the closing inventory.			800	**(1)**	(800)	
No adjustment had been made for prepaid insurance $950.	950	**(1)**			950	
Discount allowed $1600 had been added to gross profit.			3 200	**(1)**	(3 200)	
Equipment costing $15 000 (accumulated depreciation $6600), had been depreciated by 20% on cost. The reducing (diminishing) balance method should have been used at a rate of 20%.	1 320 or 3 000	**(1)**	 or 1 680		1 320	
Commission receivable, $400, had not been included in the draft income statement.	400	**(1)**			400	
	2 670		4 500			
Revised profit for the year					22 170	**(2) 1of**

[8]

(c) These arise from normal trading activities/day to day activities/selling activities/revenue earned/sale of goods (must go beyond revenue receipts), such as sales or commission **(1).** They are entered in the income statement. **(1)**

[2]

(d)

Transaction	Revenue		Capital	
	Expenditure	Receipt	Expenditure	Receipt
Sold office computer				√
Received interest on deposit account		√ **(1)**		
Took out a 5 year bank loan				√ **(1)**
Paid property insurance	√ **(1)**			
Bought motor vehicle to deliver goods			√ **(1)**	
Commission received		√ **(1)**		

[5]

[Total: 20]

3 (a)

Cam Limited
Statement of Changes in Equity for the year ended 30 September 2016

	Share Capital $		General Reserve $		Retained Profits $		Total $	
Balance at 1 October 2015	70 000		40 000		92 000		202 000	
Share issue	30 000	**(1)**					30 000	
Profit for the year					75 000	**(1)**	75 000	
Transfer to general reserve			80 000	**(1)**	(80 000)	**(1)**	–	
Dividend paid(interim)					(7 000)	**(1)**	(7 000)	
Dividend paid (final)					(20 000)	**(1)**	(20 000)	
Balance at 30 September 2016	100 000	**(1)**	120 000		60 000		280 000	**(1)**

[8]

(b)

Extract from the Statement of Financial Position extract at 30 September 2016

	$		$	
Equity and Reserves Ordinary shares			100 000	**(1)**
Reserves				
General reserve	120 000	**(1of)**		
Retained profit	60 000	**(1of)**		
			180 000	
Total equity and shares/shareholders' funds/total equity			280 000	**(1) w+of**
Non-current liabilities				
Debentures			50 000	**(1) (Not deducted)**
			330 000	**(1) of**

[6]

(c) Retains cash in the business/maintains liquidity **(1)**
Improves working capital **(1)**
Funds retained for major expenditure such as purchasing non-current assets/expansion of business. **(1)**
Profits 'ploughed back' for business to grow. **(1)**
Used for future dividends/maintains dividends in times of loss/when profits are low **(1)**
For use in emergencies/contingencies/if company has financial difficulties **(1)**
(Accept any other reasonable points)

Max [2]

(d)

Ordinary shares	Debentures
Shareholders are the owners of the business **(1)**	Debenture holders make a non-current loan of capital to the business/are creditors **(1)**
Receive dividend **(1)**	Receive interest/interest is fixed **(1)**
Dividend is not guaranteed/dividend is variable (not fixed) **(1)**	Interest on the loan must be paid **(1)**
Dividend is an appropriation of profit **(1)**	Interest recorded in income statement as an expense **(1)**
In liquidation paid after debentures **(1)**	In liquidation paid before ordinary shares **(1)**
Have voting rights **(1)**	Do not have voting rights **(1)**
Can attend AGM **(1)**	Cannot attend AGM **(1)**

Max [4]

[Total:20]

4 (a)

	Workings	Answer		Comparative figures for previous year
Revenue for the year	168 000 **(1)** × $\frac{100}{75}$	$224 000	**(1)**	$200 000
Percentage mark up	$\frac{56\,000}{168\,000}$ **(1)** × 100	33.33% 33%	**(1of)** or **(1of)**	27%
Expenses for the year	GP 56 000**(1of)** – NP 11 200 **(1)** **Or** 20%**(1)** of 224 000 **(1of)**	$44 800	**(1of)**	36 000
Return on capital employed (ROCE)	$\frac{11\,200\ \textbf{(1)}}{60\,000 + 20\,000\textbf{(1)}}$ × 100	14% **(1of)** **(If one correct component)**		21%

[10]

(b) Own figure rule applies

There has been an increase in sales revenue in the current year **(1)** this may be due to improved marketing/advertising/lower cost of sales of the business **(1)**

The percentage mark-up has increased in the current year **(1)** this may be due to increased prices **(1)** or decreased cost of sales/decreased purchases due to trade discounts **(1).**

The return on capital employed (ROCE) has decreased in the current year **(1)** this may be due to proportionately higher expenses **(1)** or higher capital employed for the year, or due to reduction in profits **(1).**

Expenses have increased/have more expenses **(1)** due to lack of control **(1)**

Max [6]

(c)

	Principle or concept
Revalue his premises recording the increase in market value as a profit	*Historic cost*
Include a value for business reputation in his income statement	Money measurement **(1)**
Record his drawings in the income statement	Business entity / accounting entity **(1)**
To stop charging depreciation on non-current assets for the year	Consistency **(1)**
Not to provide for trade debts which are probably irrecoverable.	Prudence **(1)**

[4]

[Total:20]

5 (a)

Project Manufacturing
Manufacturing Account for the year ended 30 September 2016

	$		$	
Raw materials inventory 1 October 2015	8 700			
Purchases of raw material	106 000	**(1)**		
	114 700			
Raw materials inventory 30 September 2016	(9 750)			
Cost of raw materials consumed			104 950	**(1)**
Factory wages			73 000	**(1)**
Royalties			8 000	**(1)**
Prime cost **(1)**			185 950	**(1) of**
Factory overheads				
Insurance	4 000			**(1)**
Rent	12 300			**(1)**
Premises maintenance	6 000			**(1)**
Managers' salaries	29 000			**(1)**
Depreciation – machinery	13 000		64 900	**(1of)**
			250 850	
Work in progress				
At 1 October 2015	19 000			
At 30 September 2016	(17 500)			
			1 450	**(1)**
Cost of production/Factory cost/ Cost of manufacturing/Manufacturing cost	**(1)**		252 300	**(1) of**

[15]

(b) Project Manufacturing
Income Statement for the year ended 30 September 2016.

	$	$	
Revenue		380 000	
Less			
Inventory of finished goods 1 October 2015	34 100		
Cost of production	252 300		**(1) of**
Purchases	36 000		**(1)**
	322 400		
Inventory of finished goods 30 September 2016	(40 400)		
Cost of sales		(282 000)	**(1) of**
Gross profit		98 000	**(1) of**
Commission received		3 000	**(1)**
		101 000	
Less expenses:			
Insurance	1 000		**(1)**
Rent	4 100		**(1)**
Premises maintenance	4 400		**(1)**
Office wages and salaries	50 000		**(1)**
Advertising (15 400 – 1 200)	10 250		**(1)**
Administration and finance costs (9 500+750)	10 250		**(1)**
Provision for doubtful debts			**(1)**
Depreciation – office fixtures			**(1)**
		(86 050)	
Profit for the year		14 950	**(1) of**

[14]

(c) Project Manufacturing
Statement of Financial Position at 30 September 2016.

Non-current assets	Cost	Accumulated depreciation	Net book value	
	$	$	$	
Machinery	115 000	63 000	52 000	**(1) of (NBV< 65 000)**
Office fixtures	14 000	7 600	6 400	**(1) of (NBV< 7 800)**
	129 000	70 600	58 400	
Current assets				
Inventory				
Raw materials		9 750		
Work in progress		17 550		
Finished goods		40 400		
		67 700		**(1) All three**
Trade receivables	32 000 **(1)**			
Less Provision for doubtful debts	(1 600)			
		30 400		**(1) of**
Other receivables		1 200		**(1)**
			99 300	
			157 700	
Financed by				
Capital		140 000		
Profit for the year		14 950		**(1) of**
		157 700		
Drawings		(39 800)		**(1)**
			157 700	
Financed by:				
Capital		140 000		
Profit for the year		14 950		**(1) of**
		154 950		
Drawings		(39 800)		**(1)**
			115 150	
Current liabilities				
Trade payables		18 700		**(1)**
Other payables		750		**(1)**
Bank		23 100		**(1)**
			42 550	
			157 700	

[11]

[Total 40 marks]