

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Specimen for 2008

GCE O LEVEL

MARK SCHEME

MAXIMUM MARK: 120

SYLLABUS/COMPONENT: 7110/02

PRINCIPLES OF ACCOUNTS  
PAPER 2

- 1 (a) Cheque (1)  
Invoice (1) [2]
- (b) Cash discount (1)  
OR  
Settlement discount (1)  
OR  
Discount received (1) [1]
- (c) Cash book (1)  
Purchases journal (1) [2]
- (d) Current liabilities (1) [1]
- (e) Improved accuracy (1)  
Faster to process transactions (1)  
Ability to process high volumes of information (1)  
Automatic performance of reconciliations (1)  
Ease of storing large amounts of data (1)  
Security of data on computer records (1) [max 2]

[Total marks 8]

2 (a)

		Sally Major					
Dr		Cash Book (bank columns)				Cr	
		2006	\$	2006	2006	\$	
—	31 July	Balance b/d	619	31 July	Bank charges	170	(1)
	31 July	Dividends	80	31 July	Balance c/d	2034	
	31 July	Cash (contra)	5				
	31 July	Bank loan	<u>1500</u>				
			<u>2204</u>			<u>2204</u>	
	1 Aug		2034				(1of)

(b)

Sally Major  
Bank Reconciliation Statement at 31 July 2006

	\$	
Balance as per cash book	2034	(1of)
Add: unpresented cheque	<u>710</u>	(1)
	2744	
Less: uncredited deposit	<u>1150</u>	(1)
Balance as per bank statement	<u>1594</u>	(1)

Allow alternative format

[Total marks 9]

3 (a)

		Total Debtors account			
		\$		\$	
Sales	—	6020		4460	(1)
				140	(1)
				<u>1420</u>	(1)
		<u>6020</u>		<u>6020</u>	

Credit sales  
6020 (1) + cash  
sales 790 (1) =  
6810

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[5]

(b)

		Total Creditors account			
		\$		\$	
Bank		1900	(1)	3600	(1)
Discount received		100	(1)		
Balance c/d		<u>1600</u>			
		<u>3600</u>		<u>3600</u>	

Accept  
alternative  
presentation [3]

(c)

Trading account for the month ended 31 July 2006

				Trading account for the month ended 31 July 2006	
		\$		\$	
Purchases		3600	(1)	Sales	6810 (1of)
Less: closing stock		<u>240</u>	(1)		
		3360			
Gross profit		<u>3450</u>			
		<u>6810</u>		<u>6810</u>	

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presentation [3]

(d)

Palmer

Jenny

Journal

	Dr.	Cr.
	\$	\$
Wages and salaries	690 (2)	
Bank		509 (2)
Tax authorities (creditor)		181 (2)

[6]

Workings (marks awarded for calculations of journal entries)

Wages and salaries		Bank – employee pay	
120 hours @ \$5 =	\$600	Gross pay	\$645 (1)
6 hours @ \$7.50 =	<u>\$ 45</u>	Tax/social security	<u>\$136 (1)</u>
	\$645 (1)		\$509
Employer's share of		Tax authorities	
Social security	<u>\$ 45 (1)</u>	Employee share tax/social security	\$136 (1)
	\$690	Employer's share social security	<u>\$ 45 (1)</u>
			\$181

(e)

Jenny Palmer					
Profit and Loss Account for the month ended 31 July 2006					
	\$			\$	
Wages and salaries	690	(1of)	Gross profit	3450	(1of)
Bad debt	140	(1)	Discount		
Sundry expenses	1650	(1)	received	100	(1)
Net profit	<u>1070</u>				
	<u>3550</u>			<u>3550</u>	

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[5]

(f)

Jenny Palmer					
Statement of Affairs at 31 July 2006					
	\$	\$		\$	\$
Fixed assets			Capital	2000	(1)
Equipment	1200	(1)	Net profit	<u>1070</u>	(1of)
				3070	
			Less drawings	<u>550</u>	(1)
Current assets				2520	
Stock	240		Current liabilities		
Debtors	1420		Trade creditors	1600	(1of)
Bank	1370		Creditor – tax		
Cash	<u>71</u>	<u>3101</u>	authorities	<u>181</u>	(1of)
		<u>4301</u>		<u>1781</u>	
				<u>4301</u>	

*Accept vertical presentation*

[8]

[Total marks 30]

4 (a) Jack Lightbourne

		Workings	
(i)	Gross profit/sales	$\frac{174\,600 - (6\,350 + 89\,150 - 8\,200)}{174\,600}$	50 % (2)
(ii)	Net profit/sales	$\frac{87\,300 \text{ (of)} - 69\,840}{174\,600}$	10 % (2)
(iii)	Rate of stock turnover	$\frac{(6\,350 + 8\,200)/2}{6\,350 + 89\,150 - 8\,200} \times 365$ or $\frac{6\,350 + 89\,150 - 8\,200}{(6\,350 + 8\,200)/2}$	30.4 days (2) or 12 times (2)
(iv)	Working capital (current) ratio	24 600 : 16 400	1.5 : 1 (2)
(v)	Quick ratio (acid test)	(24 600 - 8 200) : 16 400	1 : 1 (2)

[10]

- (b) Jack could increase the sales price for his goods. (1)  
 He could try and buy goods more cheaply from suppliers. (1)  
 He could reduce expenses. (1)

[3]

- (c) (i) Stock – lower of cost and net realisable value (1)  
 Trade debtors – expected collectible amount (1)

[2]

- (ii) Prudence (conservatism) (1)

The correct valuation base ensures profit is not overstated (1)  
 and assets are not overstated (1)

OR

True and fair view is shown (1)

[max 3]

- (d) Accountants work with generally accepted rules such as accounting standards (2)  
 Accountants are expected by profession and public to produce reliable financial information (2)  
 Professional standards are more important than individual organisations (2)  
 Preparing accounts for the temporary benefit of one individual or organisation, even an employer, is against these rules and training (2)  
 An accountant could be penalised legally or professionally for not following agreed practice (2)

[max 4]

[Total marks 22]

**5 (a)** Authorised share capital is the amount a company may issue whereas called-up share capital is issued **(2)** [2]

**(b)** Preference shares are fixed rate capital; ordinary shares are not **(1)**

Preference share dividend is allocated out of profit before ordinary share dividend **(1)**

Preference shareholders do not usually have a vote but ordinary shareholders do **(1)**

Preference shareholders have priority rights in liquidation and ordinary shareholders do not **(1)**

[max 2]

**(c)** A general reserve separates retained profits which shareholders might expect to be distributed from those which are likely to be kept long term in the company. **(1)**

**OR**

By transferring funds to a general reserve the company indicates retained profits are being reinvested long term. **(1)**

[max 1]

**(d)** Both partnerships and companies may have fixed capital **(1)**

Partners also have current accounts within the capital structure **(1)**

The capital owned by each partner is shown on a partnership balance sheet but company capital is not divided between each shareholder **(2)**

Retained profits and reserves are included in the capital and reserves of a company but not a partnership **(2)**

Different types of ownership are shown in the capital structure of a company but not a partnership **(2)**

[max 4]

**(e)** They improve comparability between financial statements. **(1)**

Fewer rules make accounts more understandable. **(1)**

Information is more reliable with fewer rules and practices to follow **(1)**

[max 2]

[Total marks 11]

6 (a)

Alison Brown  
Manufacturing Account for the year ended 31 July 2006

	\$		\$
<u>Stock of raw materials at 1 August 2005</u>			
Purchases of raw materials	396 300		
Carriage of raw materials	<u>1 200</u>		
Less: stock of raw materials at 31 July 2006		34 760	(1)
Cost of materials consumed		<u>397 500</u>	(1)
Direct factory wages (198 600 + 16 550)		432 260	
Prime cost		47 290	(1)
Factory manager's salary	18 600	<u>384 970</u>	(1)
Sundry factory expenses	24 360	215 150	(1)
Provision for depreciation of factory plant and machinery (96 000 – 42 000) x 25%	<u>13 500</u>	<u>600 120</u>	(1of)
Add decrease in work in progress		56 460	
		656 580	
		<u>150</u>	(1)
		<u>656 730</u>	<u>656 730</u>

*Accept alternative presentation*

[11]

(b) Alison Brown  
Trading and Profit and Loss Account for the year ended 31 July 2006

	\$	\$
Stock of finished goods at 1 August 2005		798 200
Cost of production	8 300 (1)	<u>6 400</u>
Purchases of finished goods	656 730 (1of)	791 800 (1)
Less drawings	<u>10 380</u>	
	675 410	
Less stock of finished goods at 31 July 2006	9 200 (1)	
Cost of goods sold	666 210	
Gross profit c/d	<u>125 590</u>	<u>791 800</u>
	791 800	
Office salaries (43 330 - 1860)	41 470 (1)	125 590
Sundry office expenses	18 950 (1)	(1of)
Distribution costs	23 460 (1)	
Provision for depreciation of office equipment		
(20% x 15 000)	3 000	
(20% x 2400 x <sup>3</sup> / <sub>12</sub> )	<u>120</u>	
Provision for doubtful debts (2% x 84 350)	3 120 (2)	
Net profit c/d	1 687 (1)	<u>125 590</u>
	<u>36 903</u>	
	125 590	

Accept any recognisable layout



